

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>		Printed Name		License Number

CITY OF DOWAGIAC

Cass County, Michigan

FINANCIAL STATEMENTS

September 30, 2006

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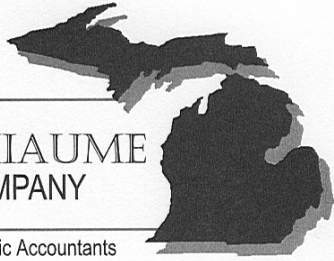
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BERTHIAUME
& COMPANY

Certified Public Accountants



60 Harrow Lane
Saginaw, Michigan 48638

(989) 791-1555
Fax (989) 791-1992

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
City of Dowagiac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, Michigan as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Dowagiac's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2006, on our consideration of the City of Dowagiac's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of pension plan funding progress and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dowagiac's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.

November 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF DOWAGIAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Dowagiac's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2006. Please read it in conjunction with the City's financial statements.

Using this Annual Report:

This annual report consists of a series of financial statements. The full accrual statements include the statement of net assets and the statement of activities, which provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole:

The following table shows, in a condensed format, the net assets as of the current date compared to the prior year:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Assets:						
Current assets	\$ 5,408,640	\$ 5,029,401	\$ 5,883,516	\$ 5,939,642	\$ 11,292,156	\$ 10,969,043
Capital assets	<u>5,657,203</u>	<u>5,702,915</u>	<u>8,888,536</u>	<u>9,118,023</u>	<u>14,545,739</u>	<u>14,820,938</u>
Total assets	<u>11,065,843</u>	<u>10,732,316</u>	<u>14,772,052</u>	<u>15,057,665</u>	<u>25,837,895</u>	<u>25,789,981</u>
Liabilities:						
Current liabilities	1,753,023	1,840,590	696,546	567,956	2,449,569	2,408,546
Long-term liabilities	<u>3,094,263</u>	<u>3,142,210</u>	<u>1,764,367</u>	<u>1,871,256</u>	<u>4,858,630</u>	<u>5,013,466</u>
Total liabilities	<u>4,847,286</u>	<u>4,982,800</u>	<u>2,460,913</u>	<u>2,439,212</u>	<u>7,308,199</u>	<u>7,422,012</u>
Net assets:						
Invested in capital assets, net of related debt	2,994,477	2,990,501	7,233,536	7,398,023	10,228,013	10,388,524
Restricted	906,261	875,696	1,473,023	1,297,610	2,379,284	2,173,306
Unrestricted	<u>2,317,819</u>	<u>1,883,319</u>	<u>3,604,580</u>	<u>3,922,820</u>	<u>5,922,399</u>	<u>5,806,139</u>
Total net assets	<u>\$ 6,218,557</u>	<u>\$ 5,749,516</u>	<u>\$ 12,311,139</u>	<u>\$ 12,618,453</u>	<u>\$ 18,529,696</u>	<u>\$ 18,367,969</u>

As of September 30, 2006, the City's combined net assets increased .88 percent from a year ago, from \$18,367,969 to \$18,529,696. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities increased by 8.2 percent. Business-type activities decreased 2.4 percent from the prior year.

CITY OF DOWAGIAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unrestricted net assets of the governmental activities, the part of the net assets that can be used to finance day-to-day operations, are \$2,317,819 or 52.1 percent of expenses.

The following table shows the changes in net assets during the current year:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Revenues:						
Program revenues						
Charges for services	\$ 1,159,787	\$ 1,358,893	\$ 7,775,557	\$ 7,289,870	\$ 8,935,344	\$ 8,648,763
Operating grants/contributions	825,272	663,593	112,582	83,122	937,854	746,715
Capital grants/contributions	51,000	40,435	-	-	51,000	40,435
General revenues					-	-
Property taxes	1,669,432	1,636,222	44,244	43,547	1,713,676	1,679,769
Franchise taxes	40,769	42,034	-	-	40,769	42,034
State revenue sharing-sales tax	768,049	778,083	-	-	768,049	778,083
Investment earnings	203,901	175,919	139,008	115,372	342,909	291,291
Miscellaneous	-	-	-	-	-	-
Total revenues	<u>4,718,210</u>	<u>4,695,179</u>	<u>8,071,391</u>	<u>7,531,911</u>	<u>12,789,601</u>	<u>12,227,090</u>
Expenses:						
General government	1,776,390	1,471,378	-	-	1,776,390	1,471,378
Public safety	1,529,601	1,900,432	-	-	1,529,601	1,900,432
Public works	844,215	1,110,219	-	-	844,215	1,110,219
Health and welfare	-	-	-	-	-	-
Community and economic development	94,585	523,692	-	-	94,585	523,692
Recreation and culture	36,257	62,865	-	-	36,257	62,865
Interest on long-term debt	167,672	177,710	-	-	167,672	177,710
Electric	-	-	5,783,140	5,081,655	5,783,140	5,081,655
Sewer	-	-	1,640,300	1,334,672	1,640,300	1,334,672
Water	-	-	586,443	537,631	586,443	537,631
DART	-	-	196,471	203,293	196,471	203,293
Total expenses	<u>4,448,720</u>	<u>5,246,296</u>	<u>8,206,354</u>	<u>7,157,251</u>	<u>12,655,074</u>	<u>12,403,547</u>
Other Items:						
Contributions to principal of permanent funds	21,600	28,600	-	-	21,600	28,600
Special item-Sale of capital assets	5,600	65,989	-	-	5,600	65,989
Transfers	172,351	304,708	(172,351)	(395,525)	-	(90,817)
Total other items	<u>199,551</u>	<u>399,297</u>	<u>(172,351)</u>	<u>(395,525)</u>	<u>27,200</u>	<u>3,772</u>
Change in net assets	<u>469,041</u>	<u>(151,820)</u>	<u>(307,314)</u>	<u>(20,865)</u>	<u>161,727</u>	<u>(172,685)</u>
Net assets, beginning of year	<u>5,749,516</u>	<u>5,901,336</u>	<u>12,618,453</u>	<u>12,639,318</u>	<u>18,367,969</u>	<u>18,540,654</u>
Net assets, end of year	<u>\$ 6,218,557</u>	<u>\$ 5,749,516</u>	<u>\$12,311,139</u>	<u>\$12,618,453</u>	<u>\$ 18,529,696</u>	<u>\$ 18,367,969</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's Funds:

Our analysis of the City's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2006 include the General Fund and the Municipal Facilities/Improvements Fund.

The General Fund pays for most of the City's governmental services, the most significant of which is public safety, with expenses of \$1,455,523 in 2005-2006.

General Fund Budgetary Highlights:

The General Fund budget was adjusted throughout the year to reflect nearly \$25,000 less in State revenue sharing than was originally forecasted by the State when the budget was assembled in March 2005. The City only received \$768,000 which, ironically, is only slightly more (2.90%) than was received ten years ago when the City received \$746,000 in State revenue sharing. During this same period the rate of inflation was 27.9% according to the Consumer Price Index for urban wage earners and clerical workers as calculated by the United States Bureau of Labor Statistics. If State revenue sharing would have kept pace with the rate of inflation, the City should have received over \$954,000 during FY05-06.

Health insurance continues to increase at rates far beyond the CPI rate noted earlier. In the last ten years the health care premium rate for a family insured by the City has risen from \$374.00 to \$1,277.00, an increase of 241%. The City's annual health care expense has increased from \$341,000 to \$900,000 per year with the General Fund share increasing from \$200,000 to \$442,000 per year.

During the same previous ten-year period, the General Fund tax revenue increased from \$942,000 to \$1,245,000 for a net gain of \$303,000. This increase occurred even though the General Fund tax levy decreased 9.3% from 17.7070 mills to 16.0521 mills due to Headlee tax rollbacks and the roll off of a Sewer Fund debt millage. Of the modest increase in tax revenue of \$303,000, however, nearly 80% of this amount has been used to offset the \$242,000 increase in health insurance costs.

The City has implemented a revised health care plan in which it self-insures increased deductibles and its drug benefits for all active employees. It is projected to save enough to offset a portion of the annual increase expected from the City health insurance carrier but any results at this time are too preliminary as the program was just implemented on October 1, 2006.

Overall, the City has continued to downsize its operations as in 1996 its full time employment base was 77 and today it stands at 73 (both numbers exclude former housing and library operations). It is doing more with less people with the assistance of good equipment and better technology and improved procedures.

The Building Department revenue increased \$23,000 over last year yielding a record high in building permits of \$73,203 as a result of the construction of a medical arts building and six new buildings in the commercial center south of the city to be used for residential living and assisted living. It was an active year that also resulted in nearly 6,400 inspections for mechanical and building permits, rechecks and complaints.

Proprietary Fund Highlights:

The City's Proprietary Funds (Electric, Water, Sewer and DART) experienced a cumulative net loss (after depreciation and transfers) of \$307,314 with only the Water Fund actually having a net income of \$55,679. The cumulative net loss resulted from over \$550,000 in maintenance and repairs to the wastewater treatment plant and various electric line upgrades throughout the City. Normally, such costs are closer to \$200,000 but this year the City had several large ticket projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

From a cash flow perspective, the Proprietary Funds had a cumulative increase of \$103,108. The Electric and Water Funds had increases of \$41,031 and \$79,176, respectively. The Sewer and DART Funds had decreases of \$5,647 and \$11,452, respectively.

Fiduciary Fund Highlights:

The City has a trust agreement with the Michigan Municipal Employees Retirement System (MERS) for the investment of surplus funds on our Retiree Health Insurance Fund. To date it has transferred \$200,000 to the MERS trust so that it can be invested by MERS and obtain higher yields than the City administration can obtain. For the fiscal year ending September 30, 2006, the rate of return was approximately 10.4% as compared to the City's portfolio which only earned a composite rate of return of 4.60%.

Capital Assets and Debt Administration:

At the end of fiscal year 2006, the City has \$25,844,732 invested, before depreciation, in a wide range of capital assets, including land, buildings and improvements, vehicles, furniture and equipment, electric, sewer and water systems.

Debt of \$2,540,791 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets and \$1,655,000 of debt related to the sewer and water systems is recorded as a liability in the business-type activities in the statement of net assets.

Economic Factors:

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has increased but is limited to the annual Headlee factor, resulting in small increases in property taxes; as stated earlier, the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care). We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Pilot, Finance Director, 241 S. Front Street, Dowagiac, Michigan, 49047.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

September 30, 2006

	<i>Primary Government</i>			<i>Component</i>
	<i>Governmental</i>	<i>Business-type</i>	<i>Total</i>	<i>Units</i>
	<i>Activities</i>	<i>Activities</i>		
Assets:				
Cash and cash equivalents	\$ 560,047	\$ 870,659	\$ 1,430,706	\$ 15,531
Investments	3,784,772	1,703,507	5,488,279	-
Receivables	997,428	1,602,317	2,599,745	126,173
Inventory	-	205,272	205,272	-
Prepaid expenses	66,393	28,738	95,131	450
Investment in land	-	-	-	456,343
Restricted cash and cash equivalents	-	569,757	569,757	-
Restricted investments	-	903,266	903,266	-
Capital assets:				
Nondepreciable capital assets	2,849,903	66,451	2,916,354	-
Depreciable capital assets, net	<u>2,807,300</u>	<u>8,822,085</u>	<u>11,629,385</u>	<u>-</u>
Total assets	<u>11,065,843</u>	<u>14,772,052</u>	<u>25,837,895</u>	<u>598,497</u>
Liabilities:				
Accounts payable and accrued expenses	234,432	695,546	929,978	284,053
Deferred revenue	1,518,591	1,000	1,519,591	67,273
Long-term liabilities:				
Due within one year	151,805	70,000	221,805	95,000
Due in more than one year	<u>2,942,458</u>	<u>1,694,367</u>	<u>4,636,825</u>	<u>354,677</u>
Total liabilities	<u>4,847,286</u>	<u>2,460,913</u>	<u>7,308,199</u>	<u>801,003</u>
Net assets:				
Invested in capital assets, net of related debt	2,994,477	7,233,536	10,228,013	-
Restricted for:				
Debt service	71,045	262,076	333,121	-
Streets	97,468	-	97,468	-
Nonexpendable cemetery principal	737,748	-	737,748	-
Replacement of capital assets	-	1,210,947	1,210,947	-
Unrestricted	<u>2,317,819</u>	<u>3,604,580</u>	<u>5,922,399</u>	<u>(202,506)</u>
Total net assets	<u>\$ 6,218,557</u>	<u>\$ 12,311,139</u>	<u>\$ 18,529,696</u>	<u>\$ (202,506)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DOWAGIAC

STATEMENT OF ACTIVITIES

Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 1,776,390	\$ 637,005	\$ 23,262	\$ 51,000	\$(1,065,123)
Public safety	1,529,601	112,516	312,584	-	(1,104,501)
Public works	844,215	48,831	485,782	-	(309,602)
Community and economic development	94,585	320,474	3,644	-	229,533
Recreation and culture	36,257	40,961	-	-	4,704
Interest on long-term debt	167,672	-	-	-	(167,672)
Total governmental activities	4,448,720	1,159,787	825,272	51,000	(2,412,661)
<i>Business-type activities:</i>					
Electric	5,783,140	5,880,224	-	-	97,084
Sewer	1,640,300	1,239,856	-	-	(400,444)
Water	586,443	639,452	-	-	53,009
Dart	196,471	16,025	112,582	-	(67,864)
Total business-type activities	8,206,354	7,775,557	112,582	-	(318,215)
Total primary government	\$ 12,655,074	\$ 8,935,344	\$ 937,854	\$ 51,000	\$(2,730,876)
COMPONENT UNITS:					
Downtown development authority	\$ 173,816	\$ 38,522	\$ 68,067	\$ -	\$ (67,227)
Local development finance authority	16,263	1,696	-	-	(14,567)
Total component units	\$ 190,079	\$ 40,218	\$ 68,067	\$ -	\$ (81,794)

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			
	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>	<i>Component Units</i>
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (2,412,661)	\$ (318,215)	\$ (2,730,876)	\$ (81,794)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	1,253,925	44,244	1,298,169	-
Property taxes, levied for trash collection	123,890	-	123,890	-
Property taxes, captured by component units	-	-	-	185,029
Payment in lieu of property taxes	291,617	-	291,617	-
Franchise taxes	40,769	-	40,769	-
Grants and contributions not restricted to specific programs	768,049	-	768,049	-
Unrestricted investment earnings	203,901	139,008	342,909	4,123
Contributions to principal of permanent funds	21,600	-	21,600	-
Special item - Gain on sale of capital asset	5,600	-	5,600	-
Transfers	172,351	(172,351)	-	-
Total general revenues, contributions, special items and transfers	2,881,702	10,901	2,892,603	189,152
Change in net assets	469,041	(307,314)	161,727	107,358
Net assets, beginning of year	5,749,516	12,618,453	18,367,969	(309,864)
Net assets, end of year	\$ 6,218,557	\$ 12,311,139	\$ 18,529,696	\$ (202,506)

CITY OF DOWAGIAC

GOVERNMENTAL FUNDS

BALANCE SHEET

September 30, 2006

	<i>General Fund</i>	<i>Municipal Facilities/ Improvements Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Assets:				
Cash and cash equivalents	\$ (121,547)	\$ (1,484)	\$ 457,250	\$ 334,219
Investments	2,002,070	377,589	822,692	3,202,351
Taxes receivable	158,113	-	-	158,113
Accounts receivable	81,286	13,906	75	95,267
Notes receivable	-	270,348	103,297	373,645
Accrued interest receivable	24,870	2,830	7,875	35,575
Due from other governmental units	192,690	9,221	75,962	277,873
Prepaid expenditures	58,041	-	7,280	65,321
Land held for development	-	-	-	-
Advance to component unit	-	-	29,562	29,562
Total assets	<u>\$ 2,395,523</u>	<u>\$ 672,410</u>	<u>\$ 1,503,993</u>	<u>\$ 4,571,926</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 46,125	\$ 3,642	\$ 17,874	\$ 67,641
Accrued expenses	40,879	-	3,234	44,113
Due to component unit	67,273	-	-	67,273
Deposits payable	425	1,300	-	1,725
Deferred revenue	1,525,847	270,698	103,297	1,899,842
Total liabilities	<u>1,680,549</u>	<u>275,640</u>	<u>124,405</u>	<u>2,080,594</u>
Fund balances:				
Reserved for:				
Prepaid expenditures	58,041	-	7,280	65,321
Debt service	-	-	71,045	71,045
Nonexpendable cemetery principal	-	-	737,748	737,748
Unreserved:				
Designated, reported in:				
General fund	5,161	-	-	5,161
Undesignated				
General fund	651,772	-	-	651,772
Special revenue funds	-	-	428,680	428,680
Capital projects funds	-	396,770	134,835	531,605
Total fund balances	<u>714,974</u>	<u>396,770</u>	<u>1,379,588</u>	<u>2,491,332</u>
Total liabilities and fund balances	<u>\$ 2,395,523</u>	<u>\$ 672,410</u>	<u>\$ 1,503,993</u>	<u>\$ 4,571,926</u>

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

Year Ended September 30, 2006

Total fund balances for governmental funds		\$ 2,491,332
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Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	5,279,733	
Less accumulated depreciation	<u>(683,787)</u>	4,595,946

Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(33,306)
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Deferred revenues reported in the governmental funds are recognized as
revenues for the governmental activities.

Property taxes	7,257	
Loans	<u>373,994</u>	381,251

Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

Bonds payable	(1,085,000)	
Loans and notes payable	(1,577,726)	
Compensated absences payable	<u>(427,964)</u>	(3,090,690)

The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets.

	<u>1,874,024</u>
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Net assets of governmental activities	<u><u>\$ 6,218,557</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF DOWAGIAC

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2006

	<i>General Fund</i>	<i>Municipal Facilities/ Improvements Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues:				
Property taxes	\$ 1,620,812	\$ -	\$ 123,890	\$ 1,744,702
Licenses and permits	124,082	-	-	124,082
Federal grants	13,710	-	-	13,710
State grants	776,171	-	482,737	1,258,908
Contributions from other units	271,638	-	-	271,638
Charges for services	537,495	-	243	537,738
Fines and forfeits	17,115	-	4,569	21,684
Interest and rents	130,784	123,931	49,550	304,265
Other revenue	47,556	56,451	364,814	468,821
Total revenues	<u>3,539,363</u>	<u>180,382</u>	<u>1,025,803</u>	<u>4,745,548</u>
Expenditures:				
Current				
General government	981,353	82,420	8,900	1,072,673
Public safety	1,455,523	-	33,732	1,489,255
Public works	44,679	-	561,992	606,671
Community and economic development	-	-	16,908	16,908
Recreation and culture	-	-	28,610	28,610
Other	657,500	-	-	657,500
Capital outlay	24,989	154,776	2,112	181,877
Debt service				
Principal	-	-	162,650	162,650
Interest and fees	-	-	147,201	147,201
Total expenditures	<u>3,164,044</u>	<u>237,196</u>	<u>962,105</u>	<u>4,363,345</u>
Excess (deficiency) of revenues over expenditures	<u>375,319</u>	<u>(56,814)</u>	<u>63,698</u>	<u>382,203</u>
Other financing sources (uses):				
Proceeds from land contract	-	90,000	-	90,000
Transfers in	-	61,016	328,720	389,736
Transfers out	(287,794)	-	(149,494)	(437,288)
Total other financing sources (uses)	<u>(287,794)</u>	<u>151,016</u>	<u>179,226</u>	<u>42,448</u>
Net change in fund balances	87,525	94,202	242,924	424,651
Fund balances, beginning of year	<u>627,449</u>	<u>302,568</u>	<u>1,136,664</u>	<u>2,066,681</u>
Fund balances, end of year	<u>\$ 714,974</u>	<u>\$ 396,770</u>	<u>\$ 1,379,588</u>	<u>\$ 2,491,332</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DOWAGIAC

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2006

Net change in fund balances - total governmental funds \$ 424,651

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	156,052	
Less depreciation expense	<u>(69,849)</u>	86,203

Collection of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as revenue in previous years.

Personal property taxes	(28,186)	
Notes proceeds	<u>(79,278)</u>	(107,464)

Contract proceeds are revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets. (90,000)

Repayments of principal on long-term obligations are expenditures in governmental but the payments reduce long-term liabilities in the statement of net assets. 139,688

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	(1,666)	
Change in accrued interest on bonds and loans payable	<u>2,491</u>	825

The net revenue (expense) of the internal service fund is reported with governmental activities. 15,138

Change in net assets of governmental activities \$ 469,041

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>		
Assets:						
<i>Current assets:</i>						
Cash and cash equivalents	\$ 713,757	\$ 17,599	\$ 187,633	\$ (48,330)	\$ 870,659	\$ 225,828
Investments	-	1,320,751	167,709	215,047	1,703,507	582,421
Accounts receivable	992,929	199,347	125,724	643	1,318,643	8,126
Notes receivable	-	-	-	-	-	10,574
Accrued interest receivable	9,464	18,058	3,261	3,351	34,134	8,202
Due from other governmental units	4,541	-	-	2,853	7,394	491
Inventory	125,377	17,619	62,276	-	205,272	-
Prepaid expenses	10,124	10,026	5,086	3,502	28,738	1,072
Total current assets	<u>1,856,192</u>	<u>1,583,400</u>	<u>551,689</u>	<u>177,066</u>	<u>4,168,347</u>	<u>836,714</u>
<i>Noncurrent assets:</i>						
Restricted cash and cash equivalents	457,681	112,076	-	-	569,757	-
Restricted investments	753,266	150,000	-	-	903,266	-
Capital assets:						
Nondepreciable capital assets	16,775	47,710	1,966	-	66,451	-
Depreciable capital assets, net	2,909,361	3,987,560	1,909,860	15,304	8,822,085	1,061,257
Advance to component unit	-	242,146	-	-	242,146	-
Total noncurrent assets	<u>4,137,083</u>	<u>4,539,492</u>	<u>1,911,826</u>	<u>15,304</u>	<u>10,603,705</u>	<u>1,061,257</u>
Total assets	<u>5,993,275</u>	<u>6,122,892</u>	<u>2,463,515</u>	<u>192,370</u>	<u>14,772,052</u>	<u>1,897,971</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF DOWAGIAC

PROPRIETARY FUNDS **STATEMENT OF NET ASSETS, CONTINUED** September 30, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>		
Liabilities:						
<i>Current liabilities:</i>						
Accounts payable	346,098	226,997	12,596	2,675	588,366	19,484
Accrued expenses	9,123	35,349	13,463	1,784	59,719	890
Deposits payable	38,651	-	8,810	-	47,461	-
Deferred revenue	-	-	1,000	-	1,000	-
Current long-term debt	-	46,656	23,344	-	70,000	-
Total current liabilities	<u>393,872</u>	<u>309,002</u>	<u>59,213</u>	<u>4,459</u>	<u>766,546</u>	<u>20,374</u>
<i>Noncurrent liabilities:</i>						
Compensated absences payable	62,729	30,486	10,240	5,912	109,367	3,573
Long-term debt	-	1,056,422	528,578	-	1,585,000	-
Total noncurrent liabilities	<u>62,729</u>	<u>1,086,908</u>	<u>538,818</u>	<u>5,912</u>	<u>1,694,367</u>	<u>3,573</u>
Total liabilities	<u>456,601</u>	<u>1,395,910</u>	<u>598,031</u>	<u>10,371</u>	<u>2,460,913</u>	<u>23,947</u>
Net assets:						
Invested in capital assets, net of related debt	2,926,136	2,932,192	1,359,904	15,304	7,233,536	1,061,257
Restricted for:						
Debt service	-	262,076	-	-	262,076	-
Replacement of capital assets	1,210,947	-	-	-	1,210,947	-
Unrestricted	<u>1,399,591</u>	<u>1,532,714</u>	<u>505,580</u>	<u>166,695</u>	<u>3,604,580</u>	<u>812,767</u>
Total net assets	<u>\$ 5,536,674</u>	<u>\$ 4,726,982</u>	<u>\$ 1,865,484</u>	<u>\$ 181,999</u>	<u>\$12,311,139</u>	<u>\$ 1,874,024</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DOWAGIAC

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended September 30, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>		
Operating revenues:						
Charges for services	\$ 5,770,210	\$ 1,195,351	\$ 579,054	\$ 15,888	\$ 7,560,503	\$ -
Penalties	62,116	14,734	10,924	-	87,774	-
Equipment rental	-	-	-	-	-	352,727
Other	47,898	29,771	20,461	137	98,267	45,212
Total operating revenues	5,880,224	1,239,856	610,439	16,025	7,746,544	397,939
Operating expenses:						
Personnel	460,321	313,386	153,087	71,378	998,172	40,224
Fringe benefits	190,335	170,157	76,705	44,814	482,011	18,346
Supplies	31,555	80,276	25,539	14,204	151,574	106,823
Property tax equivalents	275,039	-	-	-	275,039	-
Contracted services	191,212	193,070	24,454	5,544	414,280	42,197
Purchase of power	3,489,298	-	-	-	3,489,298	-
Administrative expense	201,197	113,281	79,136	10,477	404,091	14,032
Telephone	4,128	5,976	2,548	945	13,597	-
Mileage	6,328	1,680	1,680	-	9,688	-
Dues and membership fees	17,064	-	-	-	17,064	-
Education and training	15,104	1,922	2,550	48	19,624	-
Printing and publishing	302	-	-	45	347	-
Insurance	52,268	41,855	13,807	6,688	114,618	31,947
Utilities	94,469	123,005	37,198	-	254,672	6,787
Repairs and maintenance	259,404	309,041	46,737	11,802	626,984	86,009
Equipment rental	120,709	72,229	18,922	9,100	220,960	3,154
Bad debt expense	190,000	14,015	6,000	-	210,015	-
Other services and supplies	4,897	1,021	616	1,246	7,780	7,867
Depreciation	179,510	140,584	67,788	20,180	408,062	274,967
Total operating expenses	5,783,140	1,581,498	556,767	196,471	8,117,876	632,353
Operating income (loss)	97,084	(341,642)	53,672	(180,446)	(371,332)	(234,414)

continued

The accompanying notes are an integral part of these financial statements.

CITY OF DOWAGIAC

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Year Ended September 30, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>		
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
Non-operating revenues (expenses):						
Property taxes	-	-	-	44,244	44,244	-
Federal grants	-	-	-	37,819	37,819	-
State grants	-	-	-	74,763	74,763	-
Interest income	63,504	58,664	8,183	8,657	139,008	24,049
Rental income	-	-	29,013	-	29,013	-
Gain on sale of assets	-	-	-	-	-	5,600
Interest expense	-	(58,802)	(29,676)	-	(88,478)	-
Total non-operating revenues (expenses)	63,504	(138)	7,520	165,483	236,369	29,649
Net income (loss) before operating transfers	160,588	(341,780)	61,192	(14,963)	(134,963)	(204,765)
Operating transfers:						
Transfer from other funds	13,701	54,653	-	-	68,354	219,903
Transfer to other funds	(219,549)	(15,643)	(5,513)	-	(240,705)	-
Total operating transfers	(205,848)	39,010	(5,513)	-	(172,351)	219,903
Net income (loss)	(45,260)	(302,770)	55,679	(14,963)	(307,314)	15,138
Net assets, beginning of year	5,581,934	5,029,752	1,809,805	196,962	12,618,453	1,858,886
Net assets, end of year	<u>\$ 5,536,674</u>	<u>\$ 4,726,982</u>	<u>\$ 1,865,484</u>	<u>\$ 181,999</u>	<u>\$12,311,139</u>	<u>\$ 1,874,024</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DOWAGIAC

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

Year Ended September 30, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Funds</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
Cash flows from operating activities:						
Cash received from customers	\$ 6,022,364	\$ 1,230,413	\$ 605,978	\$ 15,051	\$7,873,806	\$ 22,806
Cash received for interfund services	-	-	-	-	-	374,309
Cash payments for interfund services	(321,906)	(185,510)	(98,058)	(19,577)	(625,051)	(17,186)
Cash payments to employees	(470,164)	(322,676)	(156,549)	(90,672)	(1,040,061)	(40,149)
Cash payments to suppliers for goods and services	(4,877,290)	(744,882)	(243,580)	(81,737)	(5,947,489)	(280,881)
Net cash provided (used) by operating activities	353,004	(22,655)	107,791	(176,935)	261,205	58,899
Cash flows from non-capital financing activities:						
Payment received on advance to component unit	-	21,460	-	-	21,460	-
Operating transfers in	13,701	54,653	-	-	68,354	219,903
Operating transfers out	(219,549)	(15,643)	(5,513)	-	(240,705)	-
Net cash provided (used) by non-capital financing activities	(205,848)	60,470	(5,513)	-	(150,891)	219,903
Cash flows from capital and related financing activities:						
Property taxes	-	-	-	44,244	44,244	-
Federal grants	-	-	-	37,819	37,819	-
Proceeds from sale of assets	-	-	-	-	-	5,600
Acquisition and construction of capital assets	(169,629)	-	(8,946)	-	(178,575)	(143,052)
Principal payments	-	(43,324)	(21,676)	-	(65,000)	-
Interest paid	-	(58,802)	(29,676)	-	(88,478)	-
Net cash provided (used) by capital and related financing activities	(169,629)	(102,126)	(60,298)	156,826	(175,227)	(137,452)

continued

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS, CONTINUED
 Year Ended September 30, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Funds</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
Cash flows from investing activities:						
Interest received	63,504	58,664	8,183	8,657	139,008	24,049
Rent received	-	-	29,013	-	29,013	-
Net cash provided by investing activities	63,504	58,664	37,196	8,657	168,021	24,049
Net increase (decrease) in cash and cash equivalents	41,031	(5,647)	79,176	(11,452)	103,108	165,399
Cash, cash equivalents, and investments, beginning of year	1,883,673	1,606,073	276,166	178,169	3,944,081	642,850
Cash, cash equivalents, and investments, end of year	<u>\$1,924,704</u>	<u>\$1,600,426</u>	<u>\$ 355,342</u>	<u>\$ 166,717</u>	<u>\$4,047,189</u>	<u>\$ 808,249</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF DOWAGIAC

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended September 30, 2006

	<i>Business-type Activities</i>					<i>Governmental Activities</i>
				<i>Nonmajor Enterprise Fund</i>		
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Funds</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 97,084	\$ (341,642)	\$ 53,672	\$ (180,446)	\$ (371,332)	\$ (234,414)
Adjustments:						
Depreciation	179,510	140,584	67,788	20,180	408,062	274,967
Change in assets and liabilities:						
Accounts receivable	144,337	(9,218)	(1,913)	(371)	132,835	(237)
Notes receivable	-	-	-	-	-	477
Accrued interest receivable	(31)	(225)	(2,348)	(783)	(3,387)	(573)
Due from other governmental units	(2,166)	-	-	180	(1,986)	(491)
Inventory	(14,180)	(870)	(10,275)	-	(25,325)	-
Prepaid expenses	14,108	14,923	3,986	2,620	35,637	9,471
Accounts payable	(19,679)	181,245	5,409	792	167,767	9,446
Accrued expenses	233	3,419	(4,256)	187	(417)	178
Due to other governmental units	-	(1,581)	-	-	(1,581)	-
Deposits payable	(36,369)	-	(610)	-	(36,979)	-
Deferred revenue	-	-	(200)	-	(200)	-
Compensated absences payable	(9,843)	(9,290)	(3,462)	(19,294)	(41,889)	75
Net cash provided (used) by operating activities	<u>\$ 353,004</u>	<u>\$ (22,655)</u>	<u>\$ 107,791</u>	<u>\$ (176,935)</u>	<u>\$ 261,205</u>	<u>\$ 58,899</u>

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2006

	<i>Retiree Health Insurance Fund</i>	<i>Agency Funds</i>	<i>Total Fiduciary Funds</i>
Assets:			
Cash and cash equivalents	\$ 23,455	\$ 616,983	\$ 640,438
Investments	228,775	-	228,775
Prepaid expenses	<u>7,443</u>	<u>-</u>	<u>7,443</u>
Total assets	<u>259,673</u>	<u>616,983</u>	<u>876,656</u>
Liabilities:			
Accounts payable and accrued expenses	-	8,833	8,833
Due to other governmental units	-	608,150	608,150
Deferred revenue	<u>1,245</u>	<u>-</u>	<u>1,245</u>
Total liabilities	<u>1,245</u>	<u>616,983</u>	<u>618,228</u>
Net Assets:			
Net assets held in trust for retiree health insurance	<u>258,428</u>	<u>-</u>	<u>258,428</u>
Total net assets	<u>\$ 258,428</u>	<u>\$ -</u>	<u>\$ 258,428</u>

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
Year Ended September 30, 2006

	<i>Retiree Health Insurance Fund</i>
Additions:	
Employee contributions	\$ 74,011
Employer contributions	52,873
Investment income	<u>19,421</u>
Total additions	<u>146,305</u>
Deductions:	
Benefit payments	<u>122,744</u>
Total deductions	<u>122,744</u>
Net increase (decrease)	23,561
Net assets, beginning of year	<u>234,867</u>
Net assets, end of year	<u><u>\$ 258,428</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Dowagiac conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component units' columns in the combined financial statements include the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Downtown Development Authority - The Downtown Development Authority (DDA) is a separate legal entity. The budgets and expenditures of the DDA are approved by the City Council. The City has the ability to significantly influence operations of the Local Development Finance Authority. The City has backed the DDA's long-term debt.

Local Development Finance Authority - The Local Development Finance Authority (LDFA) is a separate legal entity. The budgets and expenditures of the LDFA are approved by the City Council. The City has the ability to significantly influence operations of the Local Development Finance Authority.

Blended Component Unit - The transactions of the Dowagiac Municipal Building Authority are included in the funds of the primary government. The purpose of the Building Authority was to finance the construction of the new City Hall in 1997.

The Dowagiac Housing Commission is not a component unit of the City.

Basis of Presentation – Fund Accounting:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Municipal Facilities/Improvements Fund – The Municipal Facilities/Improvements Fund is used account for funds that have been earmarked for the maintenance and repairs of the City's buildings and grounds.

The City reports the following major enterprise funds:

Electric Fund – The Electric Fund is used to account for the revenues and expenses for the operation of an electric system.

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Assets, Liabilities and Equity:

Cash and Investments – Cash and investments include cash on hand, demand deposits, time deposits, highly liquid investments with original maturity of three months or less, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices. For purposes of the statement of cash flows, cash includes all cash and investments.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property Taxes – Property taxes attach as an enforceable lien on property as of December 31. City taxes are levied on the following July 1 and are due without penalty on or before September 15 with the final collection date of February 28 before they are added to the County tax rolls. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available.

The 2005 taxable valuation of the City totaled \$91,377,472, on which ad valorem taxes levied consisted of 14.1521 mills for the City's operating purposes, .5000 for D.A.R.T, and 1.4000 for solid waste disposal.

Inventories and Prepaid Expenses – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

The City defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized. Buildings and improvements, infrastructure, vehicles, machinery and other equipment, and furniture and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Infrastructure	20-50 years
Vehicles	5-25 years
Machinery and other equipment	5-33 years
Furniture and equipment	5-25 years

Compensated Absences – It is the City’s policy to permit employees to accumulate earned but unused sick and vacation days. Employees working the equivalent of a 40-hour work week shall have a maximum cash surrender value of accumulated sick leave of up to 80% of 960 hours. Fire department employees working the equivalent of five 24-hour days in a bi-weekly period shall have a maximum cash surrender value of accumulated sick leave of up to 36.9231% of 2,756 hours. The maximum accumulated amount of sick hours is dependent upon hire date. There is no maximum cash surrender value of accumulated vacation leave. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual’s employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

CITY OF DOWAGIAC

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Council meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and Special Revenue Funds.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency.
5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
6. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were materially in excess of the amounts budgeted.

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at October 1, 2005		\$	-
Current year building permit revenue			73,203
Related expenses:			
Direct costs	124,907		
Estimated indirect costs	<u>-</u>		
Total construction code expenses			<u>124,907</u>
Cumulative surplus at September 30, 2006		\$	<u>-</u>

In accordance with the Act, no reservation of fund balance in the General Fund is required.

CITY OF DOWAGIAC

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has authorized the finance director and treasurer to use any bank that they deem necessary for the deposit of its funds. The investment policy adopted by the City Council is in accordance with Public Act 196 of 1997. The City's deposits and investments have been made in accordance with statutory authority.

The City's deposits and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$4,648,812 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$716,858 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Custodial Credit Risk of Investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or an agent in the City's name:

<u>Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 4,622,467	Counterparty

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

Interest Rate Risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a maximum 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government and agency securities:		
Federal National Mortgage Association	\$ 1,248,768	5.6 years
Federal Home Loan Bank	1,715,877	8.4 years
Federal Farm Credit Bank	357,638	4.2 years
Federal Home Loan Mortgage Corporation	<u>1,300,184</u>	11.73 years
	<u>\$ 4,622,467</u>	

Credit Risk:

As of year end, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government and agency securities	\$ 4,622,467	AAA	S & P

Concentration of Credit Risk:

The City places no limit on the amount the City may invest in any one issuer. At year end, the City had more than 5% of its investments in the following:

<u>Investment</u>	<u>Fair Value</u>	<u>Concentration</u>
U.S. government and agency securities:		
Federal National Mortgage Association	\$ 1,248,768	27%
Federal Home Loan Bank	1,715,877	37%
Federal Farm Credit Bank	357,638	8%
Federal Home Loan Mortgage Corporation	1,300,184	28%

CITY OF DOWAGIAC

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

Electric Fund Reserves:

The City Charter requires the establishment of an Electric Fund reserve in an amount equal to 20% of the replacement cost of the City's Electric Utility Fund's property and equipment. No appraisal of replacement cost for property and equipment was performed for the year ended September 30, 2006. The Electric Fund reserve account balance for improvements and replacements, as of September 30, 2006, is stated at \$1,210,947. This balance represents 20% of the estimated replacement cost for property and equipment. Which was determined by utilizing the September 30, 1993 appraisal as adjusted for the increase in the annual Consumer Price Index.

Sewer Fund Reserves:

The authorizing ordinance for the 2000 Water and Sewer Supply System Revenue Bonds required the establishment and maintenance of various reserve accounts as follows:

Receiving Account – All receipts are initially deposited into this account.

Operation and Maintenance Account – Quarterly transfers are to be made to cover upcoming operating expenses.

Bond and Interest Redemption Account – Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Bond Reserve Account – From the proceeds of the Series 2000 Bonds there shall be an amount set aside which is the lesser of: (1) maximum debt service due in any year; (2) 125% of the average annual debt service; or (3) 10% of the principal amount of the bonds.

At September 30, 2006 the City had established these accounts and had restricted cash as follows:

	<i>Requirement</i>			<i>Amount Funded</i>	
	<i>October 1, 2005</i>	<i>Additions (Reductions)</i>	<i>September 30, 2006</i>	<i>Restricted Cash and Cash Equivalents</i>	<i>Restricted Investments</i>
Sewer Fund:					
Bond Reserve	\$ 71,140	\$ 2,932	\$ 74,072	\$ 112,076	\$ -
Bond and Interest Redemption	169,661	-	169,661	-	150,000
	<u>\$ 240,801</u>	<u>\$ 2,932</u>	<u>\$ 243,733</u>	<u>\$ 112,076</u>	<u>\$ 150,000</u>
Electric Fund:					
Replacement of Capital Assets	<u>\$ 1,186,041</u>	<u>\$ 24,906</u>	<u>\$ 1,210,947</u>	<u>\$ 457,681</u>	<u>\$ 753,266</u>

The required minimum amount for the bond reserve is the maximum debt service due in any year.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities for the year was as follows:

	<i>October 1, 2005</i>	<i>Additions</i>	<i>Disposals/ Retirements</i>	<i>September 30, 2006</i>
Governmental Activities:				
<i>Governmental Funds:</i>				
Nondepreciable capital assets:				
Land	\$ 2,698,903	\$ 151,000	\$ -	\$ 2,849,903
Depreciable capital assets:				
Buildings and improvements	1,902,071	5,052	-	1,907,123
Land improvements	276,419	-	-	276,419
Vehicles	1,987	-	-	1,987
Machinery and equipment	238,301	-	-	238,301
Furniture and equipment	6,000	-	-	6,000
	<u>2,424,778</u>	<u>5,052</u>	<u>-</u>	<u>2,429,830</u>
<i>Internal Service Funds:</i>				
Buildings and improvements	143,233	-	-	143,233
Vehicles	2,009,180	22,736	(29,336)	2,002,580
Machinery and equipment	926,520	120,316	-	1,046,836
Furniture and equipment	191,861	-	-	191,861
	<u>3,270,794</u>	<u>143,052</u>	<u>(29,336)</u>	<u>3,384,510</u>
Subtotal depreciable capital assets	5,695,572	148,104	(29,336)	5,814,340
Accumulated depreciation:				
Governmental Funds	(613,938)	(69,849)	-	(683,787)
Internal Service Funds	<u>(2,077,622)</u>	<u>(274,967)</u>	<u>29,336</u>	<u>(2,323,253)</u>
Total accumulated depreciation	<u>(2,691,560)</u>	<u>(344,816)</u>	<u>29,336</u>	<u>(3,007,040)</u>
Net capital assets being depreciated	<u>3,004,012</u>	<u>(196,712)</u>	<u>-</u>	<u>2,807,300</u>
Governmental Activities, capital assets, net	<u>\$ 5,702,915</u>	<u>\$ (45,712)</u>	<u>\$ -</u>	<u>\$ 5,657,203</u>

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

	<u>October 1, 2005</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>September 30, 2006</u>
Business-type Activities:				
<i>Electric Fund:</i>				
Nondepreciable capital assets:				
Land	\$ 16,775	\$ -	\$ -	\$ 16,775
Depreciable capital assets:				
Buildings and improvements	149,397	-	-	149,397
Utility system	5,023,115	137,331	-	5,160,446
Machinery and other equipment	182,867	32,298	-	215,165
Subtotal depreciable capital assets	5,355,379	169,629	-	5,525,008
Accumulated depreciation	(2,436,137)	(179,510)	-	(2,615,647)
Net capital assets being depreciated	2,919,242	(9,881)	-	2,909,361
Electric Fund, capital assets, net	2,936,017	(9,881)	-	2,926,136
<i>Sewer Fund:</i>				
Nondepreciable capital assets:				
Land	47,710	-	-	47,710
Depreciable capital assets:				
Buildings and improvements	4,940,195	-	-	4,940,195
Utility system	2,896,906	-	-	2,896,906
Machinery and equipment	178,825	-	-	178,825
Subtotal depreciable capital assets	8,015,926	-	-	8,015,926
Accumulated depreciation	(3,887,782)	(140,584)	-	(4,028,366)
Net capital assets being depreciated	4,128,144	(140,584)	-	3,987,560
Sewer Fund, capital assets, net	4,175,854	(140,584)	-	4,035,270
<i>Water Fund:</i>				
Nondepreciable capital assets:				
Land	1,966	-	-	1,966
Depreciable capital assets:				
Buildings and improvements	796,875	-	-	796,875
Utility system	2,576,293	8,946	-	2,585,239
Machinery and equipment	36,460	-	-	36,460
Subtotal depreciable capital assets	3,409,628	8,946	-	3,418,574
Accumulated depreciation	(1,440,926)	(67,788)	-	(1,508,714)
Net capital assets being depreciated	1,968,702	(58,842)	-	1,909,860
Water Fund, capital assets, net	1,970,668	(58,842)	-	1,911,826

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

	<i>October 1, 2005</i>	<i>Additions</i>	<i>Disposals/ Retirements</i>	<i>September 30, 2006</i>
Business-type Activities, continued:				
<i>DART Fund:</i>				
Depreciable capital assets:				
Furniture and equipment	7,893	-	-	7,893
Vehicles	<u>146,637</u>	<u>-</u>	<u>-</u>	<u>146,637</u>
Subtotal depreciable capital assets	<u>154,530</u>	<u>-</u>	<u>-</u>	<u>154,530</u>
Accumulated depreciation	<u>(119,046)</u>	<u>(20,180)</u>	<u>-</u>	<u>(139,226)</u>
Net capital assets being depreciated	<u>35,484</u>	<u>(20,180)</u>	<u>-</u>	<u>15,304</u>
DART Fund, capital assets, net	<u>35,484</u>	<u>(20,180)</u>	<u>-</u>	<u>15,304</u>
Business-type Activities, capital assets, net	<u>\$ 9,118,023</u>	<u>\$ (229,488)</u>	<u>\$ -</u>	<u>\$ 8,888,535</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

General government	\$ 36,971
Public safety	21,694
Public works	280,616
Recreation and culture	<u>5,535</u>
Total Governmental Activities	<u>\$ 344,816</u>

Business-type Activities:

Electric	\$ 179,510
Sewer	140,585
Water	67,788
DART	<u>20,179</u>
Total Business-type Activities	<u>\$ 408,062</u>

CITY OF DOWAGIAC

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

NOTE 6: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Primary Government:		
Loans	\$ 373,994	\$ -
Delinquent personal property taxes	7,257	
Program revenue received prior to meeting eligibility requirements	-	41,783
Property taxes collected in advance on 2006 levy	<u>-</u>	<u>1,477,808</u>
Total	<u>\$ 381,251</u>	<u>\$ 1,519,591</u>
Component Units:		
Loans	\$ 58,900	\$ -
Property taxes collected in advance on 2006 levy		<u>67,273</u>
Total	<u>\$ 58,900</u>	<u>\$ 67,273</u>

NOTE 7: LONG-TERM LIABILITIES

The City may issue bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

Long-term obligation activity for the year ended September 30, 2006 is summarized as follows:

	<i>Principal Maturity Ranges</i>	<i>October 1, 2005</i>	<i>Additions (Reductions)</i>	<i>September 30, 2006</i>	<i>Due Within One Year</i>
Governmental Activities:					
General Obligation Limited Tax Bond - 1997 Building Authority Bonds for \$1,600,000, at 4.7-5.4% interest; Maturing through August 1, 2017	\$75,000-130,000	\$ 1,155,000	\$ (70,000)	\$ 1,085,000	\$ 75,000
2000 Installment Purchase - Land for \$500,000, at 7.0% interest; Maturing through December 1, 2015	25,425-49,642	371,497	(28,892)	342,605	30,915
2001 Promissory Note - Land Contract for \$800,000, at 8.0% interest Maturing through December 1, 2029	11,118-69,580	792,224	(11,118)	781,106	12,041
2001 Michigan Strategic Grant/Loan For \$400,000, at 0% interest; Maturing through May 1, 2011	31,520-52,640	294,720	(52,640)	242,080	52,640
2005 Promissory Note - Land Contract for \$90,000, at 8.5% interest Maturing through June 15, 2023	2,350-15,664	-	90,000	90,000	2,350
Compensated absences		429,796	1,741	731,537	-
Total Governmental Activities		3,043,237	(70,909)	3,272,328	172,946
	<i>Principal Maturity Ranges</i>	<i>October 1, 2005</i>	<i>Additions (Reductions)</i>	<i>September 30, 2006</i>	<i>Due Within One Year</i>
Business-type Activities:					
2000 Revenue bonds - 2000 Water and Sewer for \$1,955,000 (66.6513% Sewer; 33.3487% Water) at 4.85 to 5.65% interest; Maturing through 2021	\$65,000-165,000	\$ 1,720,000	\$ (65,000)	\$ 1,655,000	\$ 70,000
Compensated absences		151,256	(41,889)	109,367	-
Total Business-type Activities		\$ 1,871,256	\$ (106,889)	\$ 1,764,367	\$ 70,000

CITY OF DOWAGIAC

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

	<i>Principal Maturity Ranges</i>	<i>October 1, 2005</i>	<i>Additions (Reductions)</i>	<i>September 30, 2006</i>	<i>Due Within One Year</i>
Component Units:					
1994 DDA General obligation bonds - for \$620,000 at 5.65 to 6.00% interest; Maturing through 2010	\$50,000-65,000	\$ 280,000	\$ (50,000)	\$ 230,000	\$ 50,000
1997 DDA Limited Tax General obligation bonds for \$510,000 at 5.40 to 5.80% interest; Maturing through 2010	45,000-55,000	245,000	(45,000)	200,000	45,000
Compensated absences		<u>20,629</u>	<u>(952)</u>	<u>19,677</u>	<u>-</u>
Total Component Units		<u>\$ 545,629</u>	<u>\$ (95,952)</u>	<u>\$ 449,677</u>	<u>\$ 95,000</u>

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

<i>Year Ended September 30,</i>	<i>Primary Government</i>					
	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2007	\$ 151,805	\$ 169,376	\$ 321,181	\$ 70,000	\$ 86,288	\$ 156,288
2008	157,101	160,443	317,544	75,000	82,753	157,753
2009	167,766	150,941	318,707	80,000	78,935	158,935
2010	178,830	140,730	319,560	85,000	74,830	159,830
2011	190,316	129,780	320,096	90,000	70,455	160,455
2012-2016	1,027,601	457,447	1,485,048	530,000	275,044	805,044
2017-2021	319,220	234,761	553,981	725,000	107,053	832,053
2022-2026	258,655	138,813	397,468	-	-	-
2027-2030	211,432	29,376	240,808	-	-	-
	<u>\$ 2,662,726</u>	<u>\$ 1,611,667</u>	<u>\$ 4,274,393</u>	<u>\$ 1,655,000</u>	<u>\$ 775,358</u>	<u>\$ 2,430,358</u>

<i>Year Ended September 30,</i>	<i>Component Units</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2007	\$ 95,000	\$ 23,440	\$ 118,440
2008	105,000	17,919	122,919
2009	110,000	11,725	121,725
2010	120,000	5,140	125,140
	<u>\$ 430,000</u>	<u>\$ 58,224</u>	<u>\$ 488,224</u>

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	<i>Primary Government</i>		
	<i>Governmental</i>	<i>Business-type</i>	<i>Component</i>
	<i>Activities</i>	<i>Activities</i>	<i>Units</i>
Receivables:			
Property taxes	\$ 158,113	\$ -	\$ -
Accounts	103,393	1,318,643	-
Notes	384,219	-	58,900
Accrued interest	43,777	34,134	-
Intergovernmental	278,364	7,394	-
Due from primary government	-	-	67,273
Advance to component unit	29,562	242,146	-
Total receivables	<u>\$ 997,428</u>	<u>\$ 1,602,317</u>	<u>\$ 126,173</u>
Accounts payable and accrued expenses:			
Accounts	\$ 87,125	\$ 588,366	\$ 930
Payroll and related liabilities	45,003	30,390	1,049
Accrued interest	33,306	29,329	10,366
Intergovernmental	-	-	-
Due to component unit	67,273	-	-
Deposits payable	1,725	47,461	-
Other	-	-	-
Advance from primary government	-	-	271,708
Total accounts payable and accrued expenses	<u>\$ 234,432</u>	<u>\$ 695,546</u>	<u>\$ 284,053</u>

CITY OF DOWAGIAC

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

NOTE 9: INTERFUND BALANCES AND TRANSFERS

At September 30, 2006, there were no interfund receivables and payables.

The composition of interfund transfers at September 30, 2006 is as follows reported in the fund financial statements:

<u>Transfer To</u>	<u>Transfer from</u>							<u>Totals</u>
	<u>General Fund</u>	<u>Major Street</u>	<u>Depot Drive</u>	<u>Capital Projects</u>	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	
Nonmajor Governmental								
Local Street	\$ -	\$ 77,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,000
Parks	25,000	-	-	-	-	-	-	25,000
Industrial Development	-	-	-	-	-	-	77,000	77,000
Police Athletic League	-	-	-	-	-	-	21,500	21,500
Municipal Facilities	-	-	4,140	-	-	-	56,876	61,016
Debt Service	55,391	-	-	-	15,643	5,513	51,673	128,220
Sewer	-	54,653	-	-	-	-	-	54,653
Electric	-	-	-	13,701	-	-	-	13,701
Internal Service	<u>207,403</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,500</u>	<u>219,903</u>
	<u>\$287,794</u>	<u>\$131,653</u>	<u>\$ 4,140</u>	<u>\$ 13,701</u>	<u>\$ 15,643</u>	<u>\$ 5,513</u>	<u>\$219,549</u>	<u>\$ 677,993</u>

Total

Interfund transfers reported in the government-wide statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Business-type activities	Governmental activities	<u>\$ 172,351</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City manages its general liability, property, and auto risk/insurance by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing insurance coverage to its participating members. The City pays premiums to the Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk/insurance by participating in the Michigan Municipal League (MML), a public entity pool providing insurance coverage to its participating members. The City pays premiums to MML for the insurance coverage. The MML is self-sustaining through member premiums. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City obtains its other insurance coverage through a commercial insurance company.

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):

Plan Description – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's management and personnel policy. The required employee contribution rates and the City's actuarially determined rates for the fiscal year ended September 30, 2006 were as follows:

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

<i>Valuation Division</i>	<i>Provision</i>	<i>Employer Contribution Rate</i>	<i>Employee Contribution Rate</i>
General - Non-Union	B-2	5.36%	6.89%
Police	B-4	8.00%	8.65%
Fire	B-4	8.65%	9.17%
General Public Work	B-4	11.27%	8.11%
Department Heads	B-4	21.86%	6.51%
Police Sergeants	B-4	13.13%	8.20%

Annual Pension Costs – For year ended September 30, 2006, the City's annual pension cost of \$279,472 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of September 30, follows:

	<i>2006</i>	<i>2005</i>	<i>2004</i>
Annual pension cost	\$ 279,473	\$ 292,308	\$ 275,171
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Post Employment – Retiree Health Insurance Benefits:

The City has established a postemployment hospitalization insurance plan for employees retiring after October 1, 1984 who: (a) receive benefits under the City Retirement Plan; or (b) have attained age sixty (60) years but do not qualify to receive benefits under the City Retirement Plan although they have been employed by the City for a minimum of five (5) years. The plan currently covers 69 active employees and 15 retired employees.

The obligation to pay postemployment hospitalization insurance premium was established by the City Council. The obligation requires that the City reimburse any eligible employee an amount equal to 50% of any premium attributable to the employee only or up to a maximum of \$200 per month for all employees except police retirees who are reimbursed a maximum of \$275 per month until age 65 and then \$200 thereafter.

The City has chosen to advance-fund this obligation based on an actuarial valuation at October 1, 2005 (latest available report). Significant actuarial assumptions used include: (a) a rate of return on investment of 8% per year compounded annually, (b) projected salary increases of 4.5% per year.

The required contribution, for retire health insurance funding, for the year ended September 30, 2006 is \$52,873 and a contribution of \$52,873 has been made by the City.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

The amount of net assets available in the Retiree Health Insurance Fund, a fiduciary fund, at September 30, 2006 is \$258,428. The amount of unfunded accrued liability at September 30, 2006, including the employee's share of the premium cost, is estimated to be approximately \$1,227,928 based on the latest available actuarial valuation (as of October 1, 2005).

Upcoming Reporting Change – The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than the time the health care benefits are paid. The new pronouncement is effective for the year beginning October 1, 2009.

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

NOTE 12: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

Specific designations on fund equity include:

Designated for Rudolphi Wildlife – This designation was created to indicate funds contributed to cover payment of associated expenditures.

Designated for COPS – This designation was created to indicate funds contributed to cover payment of associated expenditures.

Designated for Girl Power – This designation was created to indicate funds contributed to cover payment of associated expenditures.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2006

NOTE 13: COMPONENT UNITS REPORTING

A condensed Statement of Net Assets as September 30, 2006, and the Statement of Activities for the year then ended for each of the discretely presented component units follows:

	<i>Local Development Finance Authority</i>	<i>Downtown Development Authority</i>	<i>Total Component Units</i>
STATEMENT OF NET ASSETS:			
Assets:			
Cash and cash equivalents	\$ 3,142	\$ 12,389	\$ 15,531
Notes receivable	-	58,900	58,900
Due from primary government	12,926	54,347	67,273
Prepaid expenditures	-	450	450
Land held for development	456,343	-	456,343
Total assets	472,411	126,086	598,497
Liabilities:			
Accounts payable	-	930	930
Accrued expenses	-	11,415	11,415
Advance from primary unit	271,708	-	271,708
Deferred Revenue	12,926	54,347	67,273
Long-term liabilities			
Due within one year	-	95,000	95,000
Due in more than one year	-	354,677	354,677
Total liabilities	284,634	516,369	801,003
Net assets:			
Unrestricted	\$ 187,777	\$ (390,283)	\$ (202,506)
STATEMENT OF ACTIVITIES:			
Expenses - Community and economic development	\$ 16,263	\$ 173,816	\$ 190,079
Program revenues:			
Charges for services	1,696	38,522	40,218
Contribution from City	-	68,067	68,067
Net expenses (revenues)	(14,567)	(67,227)	(81,794)
General revenues:			
Property taxes captured	42,308	142,721	185,029
Unrestricted investment earnings	-	4,123	4,123
Total general revenues	42,308	146,844	189,152
Change in net assets	27,741	79,617	107,358
Net assets, beginning of year	160,036	(469,900)	(309,864)
Net assets, end of year	\$ 187,777	\$ (390,283)	\$ (202,506)

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended September 30, 2006

<i>Actuarial Valuation Date</i>	<i>12/31/05</i>	<i>12/31/04</i>	<i>12/31/03</i>
Actuarial Value of Assets	\$ 7,838,569	\$ 7,231,290	\$ 6,682,270
Actuarial Accrued Liability (AAL)	13,496,922	11,417,684	10,233,293
Unfunded AAL (UAAL)	5,658,353	4,186,394	3,541,023
Funded Ratio	58%	63%	65%
Covered Payroll	2,362,575	2,718,932	2,676,218
UAAL as a percentage of covered payroll	239%	154%	132%

CITY OF DOWAGIAC

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2006

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
Property taxes	\$ 1,602,355	\$ 1,625,951	\$ 1,620,812	\$ (5,139)
Licenses and permits	89,770	125,326	124,082	(1,244)
Federal grants	-	13,710	13,710	-
State grants	796,177	772,549	776,171	3,622
Contributions from other units	200,297	261,344	271,638	10,294
Charges for services	541,804	547,357	537,495	(9,862)
Fines and forfeits	6,750	17,114	17,115	1
Interest and rents	67,274	101,100	130,784	29,684
Other revenue	30,050	48,059	47,556	(503)
Total revenues	<u>3,334,477</u>	<u>3,512,510</u>	<u>3,539,363</u>	<u>26,853</u>
Expenditures:				
Current				
General government	888,346	986,975	981,353	(5,622)
Public safety	1,304,471	1,459,431	1,455,523	(3,908)
Public works	46,377	44,906	44,679	(227)
Other	913,571	659,047	657,500	(1,547)
Capital outlay	<u>6,700</u>	<u>17,856</u>	<u>24,989</u>	<u>7,133</u>
Total expenditures	<u>3,159,465</u>	<u>3,168,215</u>	<u>3,164,044</u>	<u>(4,171)</u>
Excess (deficiency) of revenues over expenditures	<u>175,012</u>	<u>344,295</u>	<u>375,319</u>	<u>31,024</u>
Other financing sources (uses):				
Transfers out	<u>(262,794)</u>	<u>(287,794)</u>	<u>(287,794)</u>	<u>-</u>
Total other financing sources (uses)	<u>(262,794)</u>	<u>(287,794)</u>	<u>(287,794)</u>	<u>-</u>
Net change in fund balance	(87,782)	56,501	87,525	31,024
Fund balance, beginning of year	<u>627,449</u>	<u>627,449</u>	<u>627,449</u>	<u>-</u>
Fund balance, end of year	<u>\$ 539,667</u>	<u>\$ 683,950</u>	<u>\$ 714,974</u>	<u>\$ 31,024</u>

CITY OF DOWAGIAC

SPECIAL REVENUE FUND – MUNICIPAL FACILITIES/IMPROVEMENT FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2006

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
Interest and rents	\$ 44,489	\$ 66,553	\$ 123,931	\$ 57,378
Other revenue	1,951	133,636	56,451	-
Total revenues	46,440	200,189	180,382	57,378
Expenditures:				
Current				
General government	36,744	126,786	82,420	(44,366)
Capital outlay	17,603	158,603	154,776	(3,827)
Total expenditures	54,347	285,389	237,196	(48,193)
Excess (deficiency) of revenues over expenditures	(7,907)	(85,200)	(56,814)	105,571
Other financing sources:				
Proceeds from land contract	-	90,000	90,000	-
Transfers in	61,016	61,016	61,016	-
Total other financing sources	61,016	151,016	151,016	-
Net change in fund balance	53,109	65,816	94,202	105,571
Fund balance, beginning of year	302,568	302,568	302,568	-
Fund balance, end of year	\$ 355,677	\$ 368,384	\$ 396,770	\$ 105,571

OTHER SUPPLEMENTAL INFORMATION

CITY OF DOWAGIAC

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended September 30, 2006

Current Taxes:

Property taxes	\$ 1,245,469
Penalties and interest on taxes	36,642
Administration fees	47,084
Payment in lieu of taxes	291,617
	<u>1,620,812</u>

Licenses and permits:

Business licenses and permits	160
Nonbusiness licenses and permits	83,153
CATV franchise fees	40,769
	<u>124,082</u>

Federal grants:

Police	<u>13,710</u>
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State Grants:

Liquor license fees	4,395
State revenue sharing - sales tax	768,049
Police	3,727
	<u>776,171</u>

Contribution from other units:

Contributions from county	188,206
Fire protection fees	71,939
Contributions from school districts	1,277
Administration fees from Downtown Development Authority	10,216
	<u>271,638</u>

Charges for services:

Recreation fees	40,461
Cemetery fees	35,886
Police services and reports	7,020
Airport fees	17,652
Other	416
Charges to other funds	436,060
	<u>537,495</u>

Fines and forfeits:

Ordinance fines	200
Other	16,915
	<u>17,115</u>

Interest and rents:

Interest	112,286
Rents	18,498
	<u>130,784</u>

Other Revenue:

Cemetery lots/perpetual care	15,400
Contributions and donations	13,070
Other	19,086
	<u>47,556</u>

Total revenues	<u><u>\$ 3,539,363</u></u>
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CITY OF DOWAGIAC

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended September 30, 2006

Expenditures:

General Government:

Council:

Personnel	\$ 8,025
Fringe benefits	739
Contracted services	1,235
Dues and memberships	1,404
Education and training	3,057
Other	3,135
	<u>17,595</u>

Manager:

Personnel	185,532
Fringe benefits	41,427
Supplies	1,255
Contracted services	4,014
Telephone	513
Dues and memberships	1,597
Education and training	10,058
Other	1,816
	<u>246,212</u>

Accounting/Finance/Treasurer:

Personnel	196,665
Fringe benefits	26,821
Supplies	936
Contracted services	16,546
Dues and memberships	35
Education and training	3,263
Other	543
	<u>244,809</u>

Clerk:

Personnel	69,267
Fringe benefits	5,353
Supplies	226
Contracted services	3,325
Dues and memberships	754
Education and training	3,362
Printing and publications	7,971
Other	805
	<u>91,063</u>

CITY OF DOWAGIAC

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended September 30, 2006

Expenditures, continued:

General Government, continued:

Assessor:

Personnel	12,138
Fringe benefits	972
Supplies	559
Contracted services	25,500
Telephone	318
Dues and memberships	150
Education and training	115
Other	62
	<hr/>
	39,814

Elections:

Personnel	5,226
Fringe benefits	177
Supplies	774
Printing and publications	20
	<hr/>
	6,197

Building and Grounds:

Personnel	159,682
Fringe benefits	12,884
Supplies	38,310
Contracted services	25,796
Telephone	4,179
Education and training	131
Utilities	47,220
Repairs and maintenance	11,809
Other	694
	<hr/>
	300,705

Attorney:

Contracted services	<hr/>
	34,958

Total general government	<hr/>
	981,353

Public Safety:

Police:

Personnel	883,131
Fringe benefits	75,374
Supplies	30,251
Contracted services	8,213
Telephone	7,293
Education and training	20,560
Printing and publications	358
Other	1,581
	<hr/>
	1,026,761

CITY OF DOWAGIAC

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended September 30, 2006

Expenditures, continued:

Public Safety, continued:

Fire:

Personnel	238,504
Fringe benefits	17,811
Supplies	3,448
Contracted services	12,315
Telephone	1,955
Education and training	3,350
Utilities	15,279
Repairs and maintenance	7,219
Other	974
	<hr/>
	300,855

Building Inspection Department:

Personnel	82,587
Fringe benefits	7,444
Supplies	791
Contracted services	32,591
Telephone	1,637
Dues and memberships	723
Education and training	960
Printing and publications	234
Repairs and maintenance	385
Other	555
	<hr/>
	127,907

Total public safety	<hr/>	1,455,523
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Public Works:

Sidewalks:

Personnel	616
Fringe benefits	46
Repairs and maintenance	4,313
	<hr/>
	4,975

Airport:

Personnel	8,927
Fringe benefits	660
Supplies	11,139
Contracted services	6,303
Telephone	979
Insurance	8,250
Utilities	3,175
Other	271
	<hr/>
	39,704

Total public works	<hr/>	44,679
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CITY OF DOWAGIAC

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended September 30, 2006

Expenditures, continued:

Other:

Insurance and bonds	52,368
Employee benefits	451,367
Retirement	135,506
Unemployment insurance	6,427
Workers' compensation insurance	11,832
	<u>657,500</u>
Total other	<u>657,500</u>

Capital Outlay:

General government	13,062
Public safety	11,927
	<u>24,989</u>
Total capital outlay	<u>24,989</u>
Total expenditures	<u>3,164,044</u>

Other Financing Uses:

Transfers to other funds	<u>287,794</u>
Total other financing uses	<u>287,794</u>
Total expenditures and other financing uses	<u>\$ 3,451,838</u>

CITY OF DOWAGIAC

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

September 30, 2006

	<i>Special Revenue Funds</i>					
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Parks Fund</i>	<i>Sidewalk Replacement Fund</i>	<i>Solid Waste Disposal Fund</i>	<i>Industrial Development Fund</i>
Assets:						
Cash and cash equivalents	\$(97,390)	\$23,550	\$38,339	\$ 7,755	\$ (79,059)	\$ 69,811
Investments	77,734	28,749	-	-	165,207	-
Accounts receivable	75	-	-	-	-	-
Notes receivable	-	-	-	-	-	14,717
Accrued interest receivable	479	326	-	-	2,731	-
Due from other governmental units	56,428	19,534	-	-	-	-
Prepaid expenditures	2,741	2,649	-	-	1,838	-
Advance to component unit	-	-	-	-	-	29,562
Total assets	<u>\$ 40,067</u>	<u>\$74,808</u>	<u>\$38,339</u>	<u>\$ 7,755</u>	<u>\$ 90,717</u>	<u>\$ 114,090</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	\$ 9,907	\$ 5,933	\$ -	\$ -	\$ 990	\$ -
Accrued expenses	792	775	-	-	1,192	-
Deferred revenue	-	-	-	-	-	14,717
Total liabilities	<u>10,699</u>	<u>6,708</u>	<u>-</u>	<u>-</u>	<u>2,182</u>	<u>14,717</u>
Fund balances:						
Reserved for:						
Prepaid expenditures	2,741	2,649	-	-	1,838	-
Debt service	-	-	-	-	-	-
Nonexpendable cemetery principal	-	-	-	-	-	-
Unreserved:						
Special revenue funds	26,627	65,451	38,339	7,755	86,697	99,373
Capital projects fund	-	-	-	-	-	-
Total fund balances	<u>29,368</u>	<u>68,100</u>	<u>38,339</u>	<u>7,755</u>	<u>88,535</u>	<u>99,373</u>
Total liabilities and fund balances	<u>\$ 40,067</u>	<u>\$74,808</u>	<u>\$38,339</u>	<u>\$ 7,755</u>	<u>\$ 90,717</u>	<u>\$ 114,090</u>

<i>Special Revenue Funds</i>						
		<i>MSC</i>				
<i>Streetscape</i>	<i>Police</i>	<i>Rehabilitation</i>	<i>MSHDA</i>	<i>City</i>	<i>County</i>	<i>Subtotal</i>
<i>Maintenance</i>	<i>Athletic</i>	<i>Loan</i>	<i>Housing</i>	<i>Drug</i>	<i>Drug</i>	<i>Nonmajor</i>
<i>Fund</i>	<i>League</i>	<i>Repayment</i>	<i>Resource</i>	<i>Forfeiture</i>	<i>Forfeiture</i>	<i>Governmental</i>
<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Funds</i>
\$ 773	\$ 1,125	\$ 52,940	\$ 4,829	\$ 12,201	\$ 97	\$ 34,971
-	-	-	-	-	-	271,690
-	-	-	-	-	-	75
-	-	52,813	-	-	-	67,530
-	-	-	-	-	-	3,536
-	-	-	-	-	-	75,962
-	52	-	-	-	-	7,280
-	-	-	-	-	-	29,562
<u>\$ 773</u>	<u>\$ 1,177</u>	<u>\$ 105,753</u>	<u>\$ 4,829</u>	<u>\$ 12,201</u>	<u>\$ 97</u>	<u>\$ 490,606</u>
\$ -	\$ 418	\$ 214	\$ -	\$ -	\$ -	\$ 17,462
-	475	-	-	-	-	3,234
-	-	52,813	-	-	-	67,530
-	893	53,027	-	-	-	88,226
-	52	-	-	-	-	7,280
-	-	-	-	-	-	-
-	-	-	-	-	-	-
773	232	52,726	4,829	12,201	97	395,100
-	-	-	-	-	-	-
<u>773</u>	<u>284</u>	<u>52,726</u>	<u>4,829</u>	<u>12,201</u>	<u>97</u>	<u>402,380</u>
<u>\$ 773</u>	<u>\$ 1,177</u>	<u>\$ 105,753</u>	<u>\$ 4,829</u>	<u>\$ 12,201</u>	<u>\$ 97</u>	<u>\$ 490,606</u>

continued

CITY OF DOWAGIAC

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET, CONTINUED

Year Ended September 30, 2006

	<i>Special Revenue Fund</i>	<i>Debt Service Fund</i>	<i>Capital Projects Fund</i>	<i>Permanent Fund</i>	
		<i>1997</i>	<i>M-51</i>		
	<i>Depot Drive Fund</i>	<i>Building Authority Bond Fund</i>	<i>South Commerical Development Fund</i>	<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Assets:					
Cash and cash equivalents	\$ 33,992	\$ 71,045	\$ 134,835	\$ 182,407	\$ 457,250
Investments	-	-	-	551,002	822,692
Accounts receivable	-	-	-	-	75
Notes receivable	-	-	35,767	-	103,297
Accrued interest receivable	-	-	-	4,339	7,875
Due from other governmental units	-	-	-	-	75,962
Prepaid expenditures	-	-	-	-	7,280
Advance to component unit	-	-	-	-	29,562
Total assets	<u>\$ 33,992</u>	<u>\$ 71,045</u>	<u>\$ 170,602</u>	<u>\$ 737,748</u>	<u>\$ 1,503,993</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 412	\$ -	\$ -	\$ -	\$ 17,874
Accrued expenses	-	-	-	-	3,234
Deferred revenue	-	-	35,767	-	103,297
Total liabilities	<u>412</u>	<u>-</u>	<u>35,767</u>	<u>-</u>	<u>124,405</u>
Fund balances:					
Reserved for:					
Prepaid expenditures	-	-	-	-	7,280
Debt service	-	71,045	-	-	71,045
Nonexpendable cemetery principal	-	-	-	737,748	737,748
Unreserved:					
Special revenue funds	33,580	-	-	-	428,680
Capital projects fund	-	-	134,835	-	134,835
Total fund balances	<u>33,580</u>	<u>71,045</u>	<u>134,835</u>	<u>737,748</u>	<u>1,379,588</u>
Total liabilities and fund balances	<u>\$ 33,992</u>	<u>\$ 71,045</u>	<u>\$ 170,602</u>	<u>\$ 737,748</u>	<u>\$ 1,503,993</u>

CITY OF DOWAGIAC

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2006

	<i>Special Revenue Funds</i>					
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Parks Fund</i>	<i>Sidewalk Replacement Fund</i>	<i>Solid Waste Disposal Fund</i>	<i>Industrial Development Fund</i>
Revenues:						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 123,890	\$ -
State grants	340,083	139,010	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Interest and rents	3,683	1,460	43	15	6,972	2,681
Other revenue	439	605	500	4,276	-	109,681
Total revenues	<u>344,205</u>	<u>141,075</u>	<u>543</u>	<u>4,291</u>	<u>130,862</u>	<u>112,362</u>
Expenditures:						
Current						
Public safety	-	-	-	-	-	-
Public works	220,976	214,667	-	6,120	109,783	-
Community and economic development	-	-	-	-	-	1,741
Recreation and culture	-	-	28,610	-	-	-
Capital outlay	-	-	2,112	-	-	-
Debt service						
Principal	-	-	-	-	-	63,758
Interest and fees	-	-	-	-	-	62,976
Total expenditures	<u>220,976</u>	<u>214,667</u>	<u>30,722</u>	<u>6,120</u>	<u>109,783</u>	<u>128,475</u>
Excess (deficiency) of revenues over expenditures	<u>123,229</u>	<u>(73,592)</u>	<u>(30,179)</u>	<u>(1,829)</u>	<u>21,079</u>	<u>(16,113)</u>
Other financing sources (uses):						
Transfers in	-	77,000	25,000	-	-	77,000
Transfers out	(131,653)	-	-	-	-	-
Total other financing sources (uses)	<u>(131,653)</u>	<u>77,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>77,000</u>
Net change in fund balance	(8,424)	3,408	(5,179)	(1,829)	21,079	60,887
Fund balances, beginning of year	<u>37,792</u>	<u>64,692</u>	<u>43,518</u>	<u>9,584</u>	<u>67,456</u>	<u>38,486</u>
Fund balances, end of year	<u>\$ 29,368</u>	<u>\$68,100</u>	<u>\$ 38,339</u>	<u>\$ 7,755</u>	<u>\$ 88,535</u>	<u>\$ 99,373</u>

<i>Special Revenue Funds</i>						
<i>Streetscape Maintenance Fund</i>	<i>Police Athletic League Fund</i>	<i>MSC Rehabilitation Loan Repayment Fund</i>	<i>MSHDA Housing Resource Fund</i>	<i>City Drug Forfeiture Fund</i>	<i>County Drug Forfeiture Fund</i>	<i>Subtotal Nonmajor Governmental Fund</i>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123,890
-	-	3,644	-	-	-	482,737
-	243	-	-	-	-	243
-	-	-	-	2,771	1,798	4,569
2	70	21	-	-	-	14,947
689	10,220	8,400	4,800	-	-	139,610
691	10,533	12,065	4,800	2,771	1,798	765,996
-	31,834	-	-	161	1,737	33,732
1,498	-	-	-	-	-	553,044
-	-	14,183	200	-	-	16,124
-	-	-	-	-	-	28,610
-	-	-	-	-	-	2,112
-	-	-	-	-	-	63,758
-	-	-	-	-	-	62,976
1,498	31,834	14,183	200	161	1,737	760,356
(807)	(21,301)	(2,118)	4,600	2,610	61	5,640
-	21,500	-	-	-	-	200,500
-	-	-	-	-	-	(131,653)
-	21,500	-	-	-	-	68,847
(807)	199	(2,118)	4,600	2,610	61	74,487
1,580	85	54,844	229	9,591	36	327,893
\$ 773	\$ 284	\$ 52,726	\$ 4,829	\$ 12,201	\$ 97	\$ 402,380

continued

CITY OF DOWAGIAC

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended September 30, 2006

	<i>Special Revenue Fund</i>	<i>Debt Service Fund</i>	<i>Capital Projects Fund</i>	<i>Permanent Fund</i>	
		<i>1997 Building Authority Bond Fund</i>	<i>M-51 South Commerical Development Fund</i>	<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Revenues:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 123,890
State grants	-	-	-	-	482,737
Charges for services	-	-	-	-	243
Fines and forfeits	-	-	-	-	4,569
Interest and rents	7,370	1,593	4,352	21,288	49,550
Other revenue	6,011	-	197,593	21,600	364,814
Total revenues	13,381	1,593	201,945	42,888	1,025,803
Expenditures:					
Current					
General government	-	-	-	8,900	8,900
Public safety	-	-	-	-	33,732
Public works	8,948	-	-	-	561,992
Community and economic development	-	-	784	-	16,908
Recreation and culture	-	-	-	-	28,610
Capital outlay	-	-	-	-	2,112
Debt service					
Principal	-	70,000	28,892	-	162,650
Interest and fees	-	58,220	26,005	-	147,201
Total expenditures	8,948	128,220	55,681	8,900	962,105
Excess (deficiency) of revenues over expenditures	4,433	(126,627)	146,264	33,988	63,698
Other financing sources (uses):					
Transfers in	-	128,220	-	-	328,720
Transfers out	(4,140)	-	(13,701)	-	(149,494)
Total other financing sources (uses)	(4,140)	128,220	(13,701)	-	179,226
Net change in fund balance	293	1,593	132,563	33,988	242,924
Fund balances, beginning of year	33,287	69,452	2,272	703,760	1,136,664
Fund balances, end of year	\$ 33,580	\$ 71,045	\$ 134,835	\$ 737,748	\$ 1,379,588

CITY OF DOWAGIAC

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
 September 30, 2006

	<i>Motor Pool Equipment Fund</i>	<i>Computer Equipment Replacement Fund</i>	<i>Total Internal Service Funds</i>
Assets:			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 251,424	\$ (25,596)	\$ 225,828
Investments	557,421	25,000	582,421
Accounts receivable	8,126	-	8,126
Notes receivable	10,574	-	10,574
Accrued interest receivable	7,564	638	8,202
Due from other governmental units	491	-	491
Prepaid expenses	1,072	-	1,072
	<u>836,672</u>	<u>42</u>	<u>836,714</u>
Total current assets			
<i>Noncurrent assets:</i>			
Capital assets:			
Depreciable capital assets, net	962,556	98,701	1,061,257
	<u>962,556</u>	<u>98,701</u>	<u>1,061,257</u>
Total noncurrent assets			
	<u>1,799,228</u>	<u>98,743</u>	<u>1,897,971</u>
Total assets			
Liabilities:			
<i>Current liabilities:</i>			
Accounts payable	19,484	-	19,484
Accrued expenses	890	-	890
	<u>20,374</u>	<u>-</u>	<u>20,374</u>
Total current liabilities			
<i>Noncurrent liabilities:</i>			
Compensated absences payable	3,573	-	3,573
	<u>3,573</u>	<u>-</u>	<u>3,573</u>
Total noncurrent liabilities			
	<u>23,947</u>	<u>-</u>	<u>23,947</u>
Total liabilities			
Net assets:			
Invested in capital assets, net of related debt	962,556	98,701	1,061,257
Unrestricted	812,725	42	812,767
	<u>1,775,281</u>	<u>98,743</u>	<u>1,874,024</u>
Total net assets			

CITY OF DOWAGIAC

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended September 30, 2006

	<i>Motor Pool Equipment Fund</i>	<i>Computer Equipment Replacement Fund</i>	<i>Total Internal Service Funds</i>
Operating revenues:			
Equipment rental	\$ 330,518	\$ 22,209	\$ 352,727
Other	43,791	1,421	45,212
Total operating revenues	<u>374,309</u>	<u>23,630</u>	<u>397,939</u>
Operating expenses:			
Personnel	40,224	-	40,224
Fringe benefits	18,346	-	18,346
Supplies	96,870	9,953	106,823
Contracted services	3,080	39,117	42,197
Administrative expense	14,032	-	14,032
Insurance	31,947	-	31,947
Utilities	6,787	-	6,787
Repairs and maintenance	86,009	-	86,009
Equipment rental	3,154	-	3,154
Other services and supplies	815	7,052	7,867
Depreciation	263,571	11,396	274,967
Total operating expenses	<u>564,835</u>	<u>67,518</u>	<u>632,353</u>
Operating income (loss)	<u>(190,526)</u>	<u>(43,888)</u>	<u>(234,414)</u>
Non-operating revenues (expenses):			
Gain on sale of assets	5,600	-	5,600
Interest income	22,682	1,367	24,049
Total non-operating revenues (expenses)	<u>28,282</u>	<u>1,367</u>	<u>29,649</u>
Net income (loss) before operating transfers	<u>(162,244)</u>	<u>(42,521)</u>	<u>(204,765)</u>
Operating transfers:			
Transfer from other funds	180,922	38,981	219,903
Total operating transfers	<u>180,922</u>	<u>38,981</u>	<u>219,903</u>
Net income (loss)	18,678	(3,540)	15,138
Net assets, beginning of year	<u>1,756,603</u>	<u>102,283</u>	<u>1,858,886</u>
Net assets, end of year	<u>\$ 1,775,281</u>	<u>\$ 98,743</u>	<u>\$ 1,874,024</u>

CITY OF DOWAGIAC

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2006

	<i>Motor Pool Equipment Fund</i>	<i>Computer Equipment Replacement Fund</i>	<i>Total Internal Service Funds</i>
Cash flows from operating activities:			
Cash received from customers	\$ (251)	\$ 23,057	\$ 22,806
Cash received for interfund services	374,309	-	374,309
Cash payments for interfund services	(17,186)	-	(17,186)
Cash payments to employees	(40,149)	-	(40,149)
Cash payments to suppliers for goods and services	<u>(223,813)</u>	<u>(57,068)</u>	<u>(280,881)</u>
Net cash provided (used) by operating activities	<u>92,910</u>	<u>(34,011)</u>	<u>58,899</u>
Cash flows from non-capital financing activities:			
Operating transfers in	<u>180,922</u>	<u>38,981</u>	<u>219,903</u>
Net cash provided (used) by non-capital financing activities	<u>180,922</u>	<u>38,981</u>	<u>219,903</u>
Cash flows from capital and related financing activities:			
Proceeds from sale of assets	5,600	-	5,600
Acquisition and construction of capital assets	<u>(55,927)</u>	<u>(87,125)</u>	<u>(143,052)</u>
Net cash provided by capital and related financing activities	<u>(50,327)</u>	<u>(87,125)</u>	<u>(137,452)</u>
Cash flows from investing activities:			
Interest received	<u>22,682</u>	<u>1,367</u>	<u>24,049</u>
Net cash provided by investing activities	<u>22,682</u>	<u>1,367</u>	<u>24,049</u>
Net increase (decrease) in cash and cash equivalents	246,187	(80,788)	165,399
Cash, cash equivalents, and investments, beginning of year	<u>562,658</u>	<u>80,192</u>	<u>642,850</u>
Cash, cash equivalents, and investments, end of year	<u><u>\$ 808,845</u></u>	<u><u>\$ (596)</u></u>	<u><u>\$ 808,249</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (190,526)	\$ (43,888)	\$ (234,414)
Adjustments:			
Depreciation	263,571	11,396	274,967
Change in assets and liabilities:			
Accounts receivable	(237)	-	(237)
Notes receivable	477	-	477
Accrued interest receivable	-	(573)	(573)
Due from other governmental units	(491)	-	(491)
Prepaid expenses	9,471	-	9,471
Accounts payable	10,392	(946)	9,446
Accrued expenses	178	-	178
Compensated absences payable	<u>75</u>	<u>-</u>	<u>75</u>
Net cash provided (used) by operating activities	<u><u>\$ 92,910</u></u>	<u><u>\$ (34,011)</u></u>	<u><u>\$ 58,899</u></u>

COMPONENT UNITS COMBINING BALANCE SHEET

Year Ended September 30, 2006

	<i>Local Development Finance Authority</i>	<i>Downtown Development Authority</i>	<i>Total Component Units</i>
Assets:			
Cash and cash equivalents	\$ 3,142	\$ 12,389	\$ 15,531
Notes receivable	-	58,900	58,900
Due from primary government	12,926	54,347	67,273
Prepaid expenditures	-	450	450
Land held for development	456,343	-	456,343
Total assets	<u>\$ 472,411</u>	<u>\$ 126,086</u>	<u>\$ 598,497</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ -	\$ 930	\$ 930
Accrued expenses	-	1,049	1,049
Advance from primary government	271,708	-	271,708
Deferred revenue	12,926	113,247	126,173
Total liabilities	<u>284,634</u>	<u>115,226</u>	<u>399,860</u>
Fund Balances:			
Reserved for:			
Prepaid expenditures	-	450	450
Unreserved	187,777	10,410	198,187
Total fund balances	<u>187,777</u>	<u>10,860</u>	<u>198,637</u>
Total liabilities and fund balances	<u>\$ 472,411</u>	<u>\$ 126,086</u>	<u>\$ 598,497</u>

RECONCILIATION OF FUND BALANCES TO NET ASSETS:

Fund balances for the governmental funds	\$ 198,637
Interest payable on long-term debt is not payable from current resources and therefore not reported in the governmental funds	(10,366)
Deferred revenues reported in the governmental funds are recognized as revenues for the governmental activities	58,900
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds	<u>(449,677)</u>
Net assets, September 30, 2006	<u>\$ (202,506)</u>

CITY OF DOWAGIAC

COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2006

	<i>Local Development Finance Authority</i>	<i>Downtown Development Authority</i>	<i>Total Component Units</i>
Revenues:			
Property taxes	\$ 42,308	\$ 142,721	\$ 185,029
Interest and rents	-	4,123	4,123
Other revenue	1,696	113,285	114,981
Total revenues	<u>44,004</u>	<u>260,129</u>	<u>304,133</u>
Expenditures:			
Current			
Community and economic development	16,263	147,787	164,050
Debt service			
Principal	-	95,000	95,000
Interest and fees	-	29,170	29,170
Total expenditures	<u>16,263</u>	<u>271,957</u>	<u>288,220</u>
Excess (deficiency) of revenues over expenditures	27,741	(11,828)	15,913
Fund balances, beginning of year	<u>160,036</u>	<u>22,688</u>	<u>182,724</u>
Fund balances, end of year	<u>\$ 187,777</u>	<u>\$ 10,860</u>	<u>\$ 198,637</u>

CITY OF DOWAGIAC

FIDUCIARY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended September 30, 2006

	<i>October 1, 2005</i>	<i>Additions</i>	<i>Deductions</i>	<i>September 30, 2006</i>
<i>County, School, and Library Tax Fund</i>				
Assets:				
Cash and cash equivalents	\$ 75,695	\$ 2,956,040	\$ 2,423,585	\$ 608,150
Liabilities:				
Undistributed property tax collections	\$ 75,695	\$ 2,956,040	\$ 2,423,585	\$ 608,150
<i>Payroll Fund</i>				
Assets:				
Cash and cash equivalents	\$ 6,139	\$ 3,701,681	\$ 3,699,274	\$ 8,546
Liabilities:				
Accrued expenses	\$ 6,139	\$ 3,701,681	\$ 3,699,274	\$ 8,546
<i>Fire Insurance Escrow Fund</i>				
Assets:				
Cash and cash equivalents	\$ 5,780	\$ 7,071	\$ 12,564	\$ 287
Liabilities:				
Accounts payable	\$ 5,780	\$ 7,071	\$ 12,564	\$ 287
<i>Total Agency Funds</i>				
Assets:				
Cash and cash equivalents	\$ 87,614	\$ 6,664,792	\$ 6,135,423	\$ 616,983
Liabilities:				
Accounts payable	\$ 5,780	\$ 7,071	\$ 12,564	\$ 287
Accrued expenses	6,139	3,701,681	3,699,274	8,546
Undistributed property tax collections	75,695	2,956,040	2,423,585	608,150
Total liabilities	\$ 87,614	\$ 6,664,792	\$ 6,135,423	\$ 616,983

CITY OF DOWAGIAC

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

September 30, 2006

1997 GENERAL OBLIGATION LIMITED TAX BUILDING AUTHORITY BONDS

Issue dated February 1, 1997 in the amount of	\$	1,600,000
Less:		
Principal paid in prior years	(445,000)	
Principal paid in current year	<u>(70,000)</u>	
Balance payable at September 30, 2006	\$	<u>1,085,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	4.80%	\$ 54,550	\$ 75,000	\$ 129,550
2008	4.90%	50,913	75,000	125,913
2009	5.00%	47,075	80,000	127,075
2010	5.05%	42,929	85,000	127,929
2011	5.15%	38,465	90,000	128,465
2012	5.20%	33,678	95,000	128,678
2013	5.25%	28,451	105,000	133,451
2014	5.30%	22,780	110,000	132,780
2015	5.30%	16,817	115,000	131,817
2016	5.40%	10,395	125,000	135,395
2017	5.40%	<u>3,509</u>	<u>130,000</u>	<u>133,509</u>
		<u>\$ 349,562</u>	<u>\$ 1,085,000</u>	<u>\$ 1,434,562</u>

Interest on the above is payable semi-annually at the indicated rate on August 1 and February 1.

CITY OF DOWAGIAC

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

September 30, 2006

2000 INSTALLMENT PURCHASE NOTE PAYABLE - LAND PURCHASE

Contract dated March 23, 2000 in the amount of	\$	500,000
Less:		
Principal paid in prior years		(128,503)
Principal paid in current year		<u>(28,892)</u>
Balance payable at September 30, 2006	\$	<u>342,605</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	7.00%	\$ 23,982	\$ 30,915	\$ 54,897
2008	7.00%	21,818	33,079	54,897
2009	7.00%	19,503	35,394	54,897
2010	7.00%	17,025	37,872	54,897
2011	7.00%	14,374	40,523	54,897
2012	7.00%	11,537	43,360	54,897
2013	7.00%	8,502	46,395	54,897
2014	7.00%	5,255	49,642	54,897
2015	7.00%	<u>1,780</u>	<u>25,425</u>	<u>27,205</u>
		<u>\$ 123,776</u>	<u>\$ 342,605</u>	<u>\$ 466,381</u>

Interest and principal is paid annually on December 1.

CITY OF DOWAGIAC

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

September 30, 2006

2001 PROMISSORY NOTE PAYABLE - LAND CONTRACT

Contract dated December 14, 2001 in the amount o \$	800,000
Less:	
Principal paid in prior years	(7,776)
Principal paid in current year	<u>(11,118)</u>
Balance payable at September 30, 2006	<u>\$ 781,106</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	8.00%	\$ 62,053	\$ 12,041	\$ 74,094
2008	8.00%	61,054	13,040	74,094
2009	8.00%	59,971	14,123	74,094
2010	8.00%	58,799	15,295	74,094
2011	8.00%	57,530	16,564	74,094
2012	8.00%	56,155	17,939	74,094
2013	8.00%	54,666	19,428	74,094
2014	8.00%	53,053	21,041	74,094
2015	8.00%	51,307	22,787	74,094
2016	8.00%	49,416	24,678	74,094
2017	8.00%	47,367	26,727	74,094
2018	8.00%	45,149	28,945	74,094
2019	8.00%	42,746	31,348	74,094
2020	8.00%	40,145	33,949	74,094
2021	8.00%	37,327	36,767	74,094
2022	8.00%	34,275	39,819	74,094
2023	8.00%	30,970	43,124	74,094
2024	8.00%	27,391	46,703	74,094
2025	8.00%	23,515	50,579	74,094
2026	8.00%	19,317	54,777	74,094
2027	8.00%	14,770	59,324	74,094
2028	8.00%	9,846	64,248	74,094
2029	8.00%	4,514	69,580	74,094
2030	8.00%	<u>244</u>	<u>18,280</u>	<u>18,524</u>
		<u>\$ 941,580</u>	<u>\$ 781,106</u>	<u>\$ 1,722,686</u>

Interest and principal is paid monthly.

CITY OF DOWAGIAC

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

September 30, 2006

2001 MICHIGAN STRATEGIC LOAN

Grant dated October 19, 2000 in the amount of	\$	400,000
Less:		
Principal paid in prior years		(105,280)
Principal paid in current year		<u>(52,640)</u>
Balance payable at September 30, 2006	\$	<u>242,080</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	0.00%	\$ -	\$ 52,640	\$ 52,640
2008	0.00%	-	52,640	52,640
2009	0.00%	-	52,640	52,640
2010	0.00%	-	52,640	52,640
2011	0.00%	-	31,520	31,520
		<u>\$ -</u>	<u>\$ 242,080</u>	<u>\$ 242,080</u>

Principal is paid quarterly on November 1, February 1, May 1, and August 1.

CITY OF DOWAGIAC

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

September 30, 2006

2005 PROMISSORY NOTE PAYABLE - LAND CONTRACT

Contract dated June 15, 2006 in the amount of	\$	90,000
Less:		
Principal paid in prior years		-
Principal paid in current year		<u>-</u>
Balance payable at September 30, 2006	\$	<u>90,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total Annual Requirement</i>
2007	8.50%	\$ 7,650	\$ 2,350	\$ 10,000
2008	8.50%	7,450	2,550	10,000
2009	8.50%	7,234	2,766	10,000
2010	8.50%	6,998	3,002	10,000
2011	8.50%	6,743	3,257	10,000
2012	8.50%	6,466	3,534	10,000
2013	8.50%	6,166	3,834	10,000
2014	8.50%	5,840	4,160	10,000
2015	8.50%	5,487	4,513	10,000
2016	8.50%	5,103	4,897	10,000
2017	8.50%	4,687	5,313	10,000
2018	8.50%	4,235	5,765	10,000
2019	8.50%	3,745	6,255	10,000
2020	8.50%	3,213	6,787	10,000
2021	8.50%	2,636	7,364	10,000
2022	8.50%	2,011	7,989	10,000
2023	8.50%	<u>1,332</u>	<u>15,664</u>	<u>16,996</u>
		<u>\$ 86,996</u>	<u>\$ 90,000</u>	<u>\$ 176,996</u>

Interest and principal is paid annually on June 15.

CITY OF DOWAGIAC

BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS

SCHEDULE OF INDEBTEDNESS

September 30, 2006

2000 WATER and SEWER REVENUE BONDS

Issue dated June 1, 2000 in the amount of	\$	1,955,000
Less:		
Principal paid in prior years		(235,000)
Principal paid in current year		<u>(65,000)</u>
Balance payable at September 30, 2006	\$	<u><u>1,655,000</u></u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	4.85%	\$ 86,288	\$ 70,000	\$ 156,288
2008	4.90%	82,753	75,000	157,753
2009	4.95%	78,935	80,000	158,935
2010	5.00%	74,830	85,000	159,830
2011	5.00%	70,455	90,000	160,455
2012	5.10%	65,783	95,000	160,783
2013	5.20%	60,760	100,000	160,760
2014	5.30%	55,378	105,000	160,378
2015	5.35%	49,653	110,000	159,653
2016	5.40%	43,470	120,000	163,470
2017	5.40%	36,855	125,000	161,855
2018	5.50%	29,768	135,000	164,768
2019	5.50%	22,068	145,000	167,068
2020	5.65%	13,701	155,000	168,701
2021	5.65%	4,661	165,000	169,661
		<u>\$ 775,358</u>	<u>\$ 1,655,000</u>	<u>\$ 2,430,358</u>

Interest on the above is payable semi-annually at the indicated rate on December 1 and June 1.

CITY OF DOWAGIAC

COMPONENT UNITS

SCHEDULE OF INDEBTEDNESS

September 30, 2006

1994 DOWNTOWN DEVELOPMENT AUTHORITY GENERAL OBLIGATION BONDS

Issue dated July 1, 1994 in the amount of	\$	620,000
Less:		
Principal paid in prior years		(340,000)
Principal paid in current year		<u>(50,000)</u>
Balance payable at September 30, 2006	\$	<u>230,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	5.75%	\$ 12,125	\$ 50,000	\$ 62,125
2008	5.85%	9,079	55,000	64,079
2009	5.95%	5,685	60,000	65,685
2010	6.00%	<u>1,950</u>	<u>65,000</u>	<u>66,950</u>
		<u>\$ 28,839</u>	<u>\$ 230,000</u>	<u>\$ 258,839</u>

1997 LIMITED TAX GENERAL OBLIGATION DOWNTOWN DEVELOPMENT BONDS

Issue dated April 1, 1997 in the amount of	\$	510,000
Less:		
Principal paid in prior years		(265,000)
Principal paid in current year		<u>(45,000)</u>
Balance payable at September 30, 2006	\$	<u>200,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	5.50%	\$ 11,315	\$ 45,000	\$ 56,315
2008	5.60%	8,840	50,000	58,840
2009	5.70%	6,040	50,000	56,040
2010	5.80%	<u>3,190</u>	<u>55,000</u>	<u>58,190</u>
		<u>\$ 29,385</u>	<u>\$ 200,000</u>	<u>\$ 229,385</u>

Interest on the above is payable semi-annually at the indicated rate on November 1 and May 1.

DART FUND

SCHEDULE OF OPERATING REVENUES

Year Ended September 30, 2006

Operating revenues:

Demand responses - fares	\$ 15,888
Other nontransportation revenues	<u>137</u>
Total operating revenues	<u>\$ 16,025</u>

CITY OF DOWAGIAC

DART FUND

SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2006

	<u>Operation</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
Labor:				
Operators' salaries	\$ 36,075	\$ -	\$ -	\$ 36,075
Other salaries	-	5,513	5,065	10,578
Dispatcher	24,725	-	-	24,725
Fringe benefits:				
Other	40,929	413	387	41,729
Pension	2,853	-	232	3,085
Services:				
Advertising	-	-	45	45
Audit	-	-	1,800	1,800
City administration	-	10,477	-	10,477
Other services	-	3,744	-	3,744
Materials and supplies consumed:				
Fuels and lubricants	15,921	-	-	15,921
Tires and tubes	3,030	-	-	3,030
Other materials and supplies	246	6,809	-	7,055
Utilities:				
Telephone	945	-	-	945
Insurance:				
Casualty and liability insurance	6,019	-	669	6,688
Rental:				
Building/office	1,750	-	7,350	9,100
Depreciation	20,180	-	-	20,180
Miscellaneous expenses:				
Travel	-	-	48	48
Other	627	110	509	1,246
Total operating expenses	<u>\$ 153,300</u>	<u>\$ 27,066</u>	<u>\$ 16,105</u>	<u>\$ 196,471</u>

CITY OF DOWAGIAC

DART FUND

SCHEDULE OF NON-OPERATING REVENUES

Year Ended September 30, 2006

Local revenues:

City of Dowagiac - property taxes	\$ 44,244
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State of Michigan operating grants:

Formula operating assistance	72,581
Fiscal year 2002 reconciliation adjustment	483
Fiscal year 2003reconciliation adjustment	(478)
Fiscal year 2005 reconciliation adjustment	2,177
	<u>74,763</u>

Federal operating grant:

Federal Section 5311 - operating assistance	28,447
Fiscal year 1999-2000 adjustment	4,437
Fiscal year 2000-2001 adjustment	1,355
Fiscal year 2003-2004 adjustment	1,800
Fiscal year 2004-2005 adjustment	1,780
	<u>37,819</u>

Interest:

Interest	<u>8,657</u>
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Total non-operating revenues	<u>\$ 165,483</u>
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*DART FUND***SCHEDULE OF NET ELIGIBLE COSTS COMPUTATION
OF GENERAL OPERATIONS**

Year Ended September 30, 2006

	<i>Federal Section 5311</i>	<i>State Operating Assistance</i>
Expenses:		
Labor	\$ 71,378	\$ 71,378
Fringe benefits	44,814	44,814
Services	16,066	16,066
Materials and supplies consumed	26,006	26,006
Telephone	945	945
Casualty and liability insurance	6,688	6,688
Building and office rental	9,100	9,100
Depreciation	20,180	20,180
Miscellaneous expenses	1,294	1,294
Total expenses	<u>196,471</u>	<u>196,471</u>
Ineligible expenses:		
Audit	(1,800)	-
Depreciation on assets purchased with federal and/or state funds	<u>(20,180)</u>	<u>(20,180)</u>
Total ineligible expenses	<u>(21,980)</u>	<u>(20,180)</u>
Net eligible expenses	<u>\$ 174,491</u>	<u>\$ 176,291</u>
Net deficit - Section 5311	<u>\$ 174,491</u>	
Eligible Section 5311 reimbursement (17.00%)	<u>\$ 29,663</u>	
Eligible for state operating assistance:		
Maximum state operating assistance:		
Lesser of 39.2545% of expenses eligible for state operating assistance or the City's prorated share of available funds.		
39.2545% of eligible expenses		<u>\$ 69,202</u>
But at least a minimum of its 1997 floor of		<u>\$ 55,299</u>

DART FUND

SCHEDULE OF DETAIL OF INELIGIBLE EXPENSES

Year Ended September 30, 2006

	<u><i>Amount Ineligible</i></u>
Audit	\$ 1,800
Depreciation associated with an asset purchased with federal and/or state funds is not eligible:	
Computer	408
Buses	<u>19,772</u>
Total ineligible expenses	<u>\$ 21,980</u>

CITY OF DOWAGIAC

DART FUND

SCHEDULE OF MILEAGE, VEHICLE HOURS, AND PASSENGER DATA

Year Ended September 30, 2006

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours, and number of passengers transported for the year ended September 30, 2006 are as follows:

MILEAGE:

	<u>Vehicle Miles</u>
Demand - Response	
1st quarter	11,257
2nd quarter	12,158
3rd quarter	11,066
4th quarter	<u>10,591</u>
Total mileage	<u><u>46,201</u></u>

VEHICLE HOURS AND PASSENGERS:

	<u>Vehicle Hours</u>	<u>Regular Passengers</u>	<u>Senior Passengers</u>	<u>Handicapped Passengers</u>	<u>Senior Handicapped Passengers</u>
Demand - Response					
1st quarter	1,097	4,761	1,675	315	682
2nd quarter	1,134	5,794	1,957	349	700
3rd quarter	1,152	3,791	1,722	835	706
4th quarter	<u>1,116</u>	<u>3,428</u>	<u>1,459</u>	<u>841</u>	<u>675</u>
	<u><u>4,499</u></u>	<u><u>17,774</u></u>	<u><u>6,813</u></u>	<u><u>2,340</u></u>	<u><u>2,763</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

The City is not using derivative instruments in any of its funds or pension portfolios.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and the Members of City Council
City of Dowagiac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the City of Dowagiac, Michigan's basic financial statements and have issued our report thereon dated November 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dowagiac, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dowagiac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

November 28, 2006



November 28, 2006

Members of the City Council
City of Dowagiac, Michigan

We have audited the financial statements of the City of Dowagiac for the year ended September 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the City of Dowagiac in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Dowagiac are described in Note 1 to the financial statements. We noted no transactions entered into by the City of Dowagiac during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the City's financial statements and this communication of these matters does not affect our report on the financial statements, dated November 28, 2006.

Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants